Public Document Pack

Shropshire Council

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

Date: Wednesday, 5 September 2018

Committee: Audit Committee

Date: **Thursday, 13 September 2018**
Time: **1.30 pm**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

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

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

Members of Audit Committee

Peter Adams (Chairman)
Ioan Jones
Chris Mellings
Brian Williams (Vice Chairman)
Michael Wood

Your Committee Officer is:

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

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

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

3 Minutes of the previous meetings held on the 28 June and 24 July 2018 (Pages 1 - 14)

The Minutes of the meetings held on the 28 June and 24 July 2018 are attached for confirmation marked 3.
Contact Michelle Dulson (01743) 257719

4 Public Questions

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

5 First line assurance: Digital Transformation Update

The report of the Head of Workforce and Technology is to follow.
Contact: Michele Leith (01743) 254402

6 First line assurance: Information Technology Update

The report of the Head of Workforce and Technology is to follow.
Contact: Michele Leith (01743) 254402

7 First line assurance: Adult Social Care: Financial Assessments Update

The report of the Director of Adult Services is to follow.
Contact: Andy Begley (01743) 258911

8 First line assurance: Income Report update (Pages 15 - 34)

The report of the Section 151 Officer is attached marked 8.
Contact: James Walton (01743) 258915

9 Second line assurance: Risk and Insurance Annual Report 2017/18 (Pages 35 - 50)

The report of the Risk and Insurance Manager is attached, marked 9.
Contact: Angela Beechey 01743 252073

10 Second line assurance: Strategic Risks Update (Pages 51 - 56)

The report of the Risk and Insurance Manager is attached, marked 10.
Contact: Angela Beechey 01743 252073

11 Second line assurance: Annual Treasury Report 2017/18 (Pages 57 - 70)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached marked 11.
Contact: James Walton 01743 258915

12 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2018/19 (Pages 71 - 88)

The report of the Head of Audit is attached, marked 12.
Contact: Ceri Pilawski 01743 257739

13 Third line assurance: External Audit: 2017-18 Shropshire Council Annual Audit Letter (Pages 89 - 102)

The report of the Engagement Lead is attached marked 13.
Contact: Mark Stocks (0121) 232 5437

14 Third line assurance: External Audit: Shropshire County Pension Fund - Audit Findings Report 2017/18 (Pages 103 - 120)

The report of the Engagement Lead is attached marked 14.
Contact: Mark Stocks (0121) 232 5437

15 Third line of assurance: External Audit: Shropshire Council Audit Committee Progress Report September 2018 (Pages 121 - 132)

The report of the Engagement Lead is attached marked 15.
Contact: Mark Stocks (0121) 232 5437

16 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 6 December 2018 at 1.30 pm.

17 Exclusion of Press and Public

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

18 Exempt Minutes of the previous meeting held on the 28 June 2018 (Pages 133 - 136)

The exempt minutes of the meeting held on the 28 June 2018 are attached for

confirmation, marked 18.
Contact Michelle Dulson (01743) 257719

19 Third Line Assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 137 - 140)

The report of the Principal Auditor is attached, marked 19.
Contact: Peter Chadderton (01743) 257727

Shropshire Council

Committee and Date

Audit Committee

13 September 2018

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 28 JUNE 2018
1.30PM – 4.35PM**

Responsible Officer: Michelle Dulson
Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present
Councillor Peter Adams (Chairman)
Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

5 **Apologies for Absence / Notification of Substitutes**

5.1 No apologies were received.

6 **Disclosable Pecuniary Interests**

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

7 **Minutes of the previous meetings held on the 1 March and 17 May 2018**

7.1 **RESOLVED:**

That the Minutes of the meetings held on 1 March and 17 May 2018 be approved and signed by the Chairman as a correct record.

8 **Public Questions**

8.1 No public questions had been received.

It was agreed to take agenda Item 5 – First line assurance: Digital Transformation Update after Agenda Item 17 -Third line assurance: External Audit: Audit progress report and sector update.

9 **First line assurance: Estates Update**

9.1 The Committee received the report of the Head of Business Enterprise and Commercial Services – copy attached to the signed Minutes – which provided Members with an interim update following the report provided in November 2017 which sets out the management action undertaken to address the recommendations set out in the internal audit report dated 21st April 2017.

9.2 The Strategic Asset Manager explained the work that had been ongoing in relation to the Technology Forge system to prepare for the move onto the Enterprise Resource Planning (ERP) platform. The data was currently being held on the cloud and once it was ensured that the data was accurate and up to date it would be migrated onto ERP. There was no specific date for this however.

9.3 The Head of Business Enterprise and Commercial Services informed the Committee that the work was linked to the Digital Transformation Project and that a better idea of timescales would be available in September when all the actions were due to be completed.

9.4 In response to a query, it was confirmed that the three posts that had been recruited to had borne fruit and added capacity and skills to the team. Members requested that an update be provided to the November meeting.

9.5 **RESOLVED:**

A. That the progress that had been made to address the recommendations in the 21st April 2017 Audit Report to ensure that all improvements were effectively implemented and monitored via the action plan for estate management be noted.

B. That the desktop review undertaken by internal audit in March, which acknowledged the comprehensive interim response and Project Plan and the extension of the implementation date to the end of September 2018, due to the size and complexity of the project be noted.

C. To note that the improvements and implementation of the action plan associated with the audit were being progressed in line with continued implementation of the corporate landlord model and the changes required to reflect the overall change in direction of the Council in respect of its planned future new asset management strategy.

D. That an update be provided to the November Audit Committee meeting.

10 **Second line assurance: Annual whistleblowing report**

10.1 The Committee received the report of the Head of Workforce and Transformation – copy attached to the signed Minutes – which provided Members with an update on the number of Whistleblowing cases raised regarding Council employees over the previous year (excluding school based employees).

10.2 The HR Services Manager drew attention to the Whistleblowing Policy which was available via the intranet or the website. She informed Members that for 2017/18 there had been 16 whistleblowing cases compared to 15 the previous year and whilst most of last year's cases related to finance abuse and fraud, the 2017/18 cases were more wide ranging in type. She confirmed that 14 had been dealt with by Audit Services, whilst 2 had been dealt with by HR. No formal sanctions had been issued although one did proceed to a formal hearing.

10.3 In response to a query, the HR Services Manager confirmed that whistle-blowers were protected from victimisation if the allegations were genuine and that this was set out in the Policy. Whistle-blowers were also able to remain anonymous, if they so wished. In response to a query, the HR Service Manager explained that a list of prescribed people and bodies were set out in the legislation.

10.4 **RESOLVED:**

That the report be noted.

11 **Third line assurance: Internal Audit Annual report 2017/18**

11.1 The Committee received the report of the Head of Audit - copy attached to the signed Minutes - which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2018. It also reported on delivery against the approved Annual Audit Plan and included the Head of Audit's opinion on the Council's internal controls as required by the Public Sector Internal Audit Standards (PSIAS).

11.2 The Head of Audit reported that the revised plan had been delivered in excess of the 90% delivery target with *s*eventy good or reasonable assurances being made (64%), which was an increase of 12% on the previous year. This was offset by a 12% decrease in limited and unsatisfactory opinions. The Head of Audit reported that she would be giving an unqualified year end opinion for 2017/18 reflecting significant improvements in key areas of internal control.

11.3 The Head of Audit drew attention to the internal audit reviews, set out at paragraph 2.1 which provided assurance that appropriate controls were in place to counter the risk of fraud.

11.4 Members were pleased that for the first time in several years, the Head of Audit felt able to give an unqualified opinion.

11.5 **RESOLVED:**

A. That performance against the Audit Plan for the year ended 31 March 2018 be noted.

B. To note that Internal Audit had evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which could be used when considering the internal control environment and the Annual Governance Statement for 2017/18.

C. To note the Head of Audit's unqualified year end opinion on the Council's internal control environment for 2017/18 based on the work undertaken and management responses received.

12 **Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2017/18**

12.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls. The Section 151 Officer gave a brief introduction and explained that the Audit Committee, under their Terms of Reference, were tasked with a review of the overall corporate governance arrangements of the Council for the previous year. He explained that the Annual Governance Statement must be signed off by the Leader and the Chief Executive as Head of Paid Service.

12.2 In response to a query, the Section 151 Officer informed the Committee of the approach by which all capital project schemes would be considered and assessed to see whether they would be taken forward. Concern was raised that there was no mention in the Annual Governance Statement of the Council's relationship with the public, the Section 151 Officer felt this was an oversight as the Council did engage with the public and he would look at whether the Statement could be amended to demonstrate the Council's engagement with the public.

12.3 A brief discussion ensued in relation to child exploitation identified in Telford and Wrekin. In response to a query, the Section 151 Officer explained the measures taken around safeguarding but cautioned that there was no guarantee that it could be stopped in Shropshire. He confirmed however that there was no indication that any of the currently identified cases related to the geographical border of Shropshire.

12.4 In response to a query, the Section 151 Officer informed the Committee that although the Council had a clear long-term budget identified in the five year strategy, years 4 and 5 would have a £27m shortfall. The fair funding review would also have an impact as all assumptions would change. The Council was currently on plan to balance the books for the next two to three years, hence the limited assurance given.

12.5 **RESOLVED:**

A. That the Annual Governance Statement for 2017/18 be approved.

B. That the Internal Audit conclusion that the Council has strong evidence of compliance with the Code of Corporate Governance be noted.

13 Second line assurance: Financial outturn report 2017/18

13.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided details of the revised revenue and capital outturn position for Shropshire Council for 2017/18. The Section 151 Officer reported that the revised position showed an overall underspend of £0.613m and that this revised figure had been reported informally to Cabinet and would be reported to Full Council at its meeting on 26 July 2018.

13.2 The Section 151 Officer explained that the focus for Audit Committee was to look at the underlying process and governance arrangements in place and whether they were happy with the recommendations being made to Council. The Section 151 Officer then drew attention to Paragraph 6 of the report which set out the Gross Expenditure for 2017/18, and Paragraph 7 which set out the RAG ratings in relation to Savings Delivery. The financial outturn for savings delivery for 2017/18 was set out in table 3 on page 5 of the report.

13.3 The Section 151 Officer explained that the outturn position had changed since Quarter 3 as a result of further underspends due, in part, to additional income, reduced costs in some areas and further savings as a result of the implementation of a spending freeze.

13.4 In response to a query, the Section 151 Officer confirmed that the expectation was that all the identified savings would be delivered at some point in the future. He explained that for reasons beyond the Council's control some of the identified savings had not been realised in the short term, but that these would be monitored closely until they could be delivered.

13.5 In response to a query in relation to school balances, the Section 151 Officer informed the Committee that within Shropshire each school was required to identify a reasonable level of reserves for prudent reasons. He confirmed that individual school balances were not reported publicly.

13.6 **RESOLVED:**

That Council be recommended to:

A. Note that the Outturn for the Revenue Budget for 2017/18 is an underspend of £0.529m, this represents 0.09% of the original gross budget of £563.3m.

B. Note that the level of general balance after adjusting for the underspend and insurance position stands at £15.311m, which is above the anticipated level assessed in February 2017.

C. Note that the Outturn for the Housing Revenue Account for 2017/18 is an underspend of £0.007m and the level of the Housing Revenue Account reserve stands at £8.225m (2016/17 £9.031m).

D. Note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £8.026m in 2017/18 and the reasons for this.

E. Note that the level of school balances stands at £5.381m (2016/17 £6.280m).

F. Approve net budget variations of £1.472m to the 2017/18 capital programme, detailed in Appendix 5/Table 11 and the re-profiled 2017/18 capital budget of £59.748m.

G. Approve the re-profiled capital budgets of £61.795m for 2018/19, including slippage of £10.140m from 2017/18, £25.986m for 2019/20 and £15.568m for 2020/21 as detailed in Appendix 5 /Table 15.

H. Accept the outturn expenditure set out in Appendix 5 of £49.608m, representing 83% of the revised capital budget for 2017/18.

I. Approve retaining a balance of capital receipts set aside of £20.857m as at 31st March 2018 to generate a one-off Minimum Revenue Provision saving of £0.485m in 2018/19.

14 **Second line assurance: Statement of Accounts 2017/18**

14.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with an overview of the Accounts and provided details of the reasons for the most significant changes between the 2016/17 Accounts and the 2017/18 Accounts.

14.2 The Strategic Financial Accountant reported that the 2017/18 Statement of Accounts had been prepared in line with the faster closedown timetable by 31st May 2018 and were attached to the report at Appendix 1. The Statement of Accounts would be sent to External Audit for a final audit opinion by the end of July 2018 which would be reported to Full Council at its meeting in July. She drew attention to Paragraph 6 of the report and the Analytical review attached to the report at Appendix 2.

14.3 Members thanked the officers for the report and the helpful analytical report. A query was raised about whether the increase in debtors of some £4m was linked to previous issues in relation to sales ledger debt increasing, getting older or being harder to collect. The Section 151 Officer explained that this was difficult to answer but he did not feel that anything different had happened in the past 12 months and that the Statement of Accounts just set out the level of debt at a particular point in time and did not analyse the reason for levels changing from one year to the next.

14.4 In response to a query, the Section 151 Officer explained that the debt owed by NHS Bodies was in relation to the cost of continuing health care which had been borne by the local authority, the Clinical Commissioning Group (CCG) had however agreed to split the NHS pay element. This agreement had however fallen down which led to delayed payments of the debt. This debt had always been a moving target as more was being added to it as time went on. The Section 151 Officer confirmed that the long-term debts had been settled.

14.5 It was agreed for the Strategic Financial Accountant to provide Members with an update in relation to debtors.

14.6 **RESOLVED:**

A. That the contents of the draft 2017/18 statement of accounts be noted.

B. That the additional accounting policy included in the Statement of Accounts for 2017/18 be noted.

15 **Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2017/18**

15.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS), compliance against which demonstrates an effective Internal Audit service.

15.2 The Section 151 Officer drew Members' attention to paragraph 5.1 of the report which set out the mandatory Public Service Internal Audit Standards for all principal local authorities, updated in 2017. He also drew attention to the update against the Improvement Plan set out in Appendix A.

15.3 Members consider paragraph 5.7 of the report which set out areas of potential non-conformance and the Section 151 Officer explained that it was difficult to demonstrate the level of objectivity required. It was noted that the report should be read in conjunction with the Internal Audit Annual Report.

15.4 **RESOLVED:**

To note the conclusion that the Council employs an effective Internal Audit to evaluate its risk management, control and governance processes that comply with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

16 **Third line assurance: Audit Committee Effectiveness**

16.1 The Committee received the report of the S151 Officer – copy attached to the signed Minutes – which provided information on the actions taken to date to improve any identified areas of weakness and sought approval of the resulting action plan.

16.2 The Section 151 Officer reminded the Committee that following discussion of the self-assessment of good practice at its meeting in November 2017, Members resolved that options for external facilitation be explored to assess the skills and overall effectiveness of the Committee against best practice. This external facilitation took place following which the Action Plan was drawn up.

16.3 The Section 151 Officer drew attention to Paragraph 5.6 of the report which set out the questions for Members to consider in relation to both the self-assessment (Appendix A) and the Action Plan (Appendix B). Members confirmed they were happy with the contents of Appendices A and B and a brief discussion ensued in relation to how the recommendations could be taken forward. It was felt that the current practice of asking ie the Leader / Cabinet Member to attend meetings on an exception basis worked satisfactorily as the information Members acquired from the officers dealing with the particular function usually satisfied the Committee.

16.4 Turning to future training sessions, it was suggested that dates of training be put on a more formal basis so that they were included in the Schedule of Meetings which would demonstrate that there was an effective training programme in place.

16.5 **RESOLVED:**

A. That the outcome of the external facilitation assessing the Audit Committee's effectiveness against good practice attached at Appendix A be noted.

B. That the resulting action plan be approved.

17 **Third line assurance: Annual Assurance report of Audit Committee to Council 2017/18**

17.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided the Council with an independent assurance of an adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that could be relied upon and which contributed to the high corporate governance standards expected by the Council and which had been consistently maintained.

17.2 The Section 151 Officer drew attention to Paragraph 5.3 of the report which set out the requirements for the Audit Committee to be held to account on a regular basis by the Council as set out in Section 6.34 of CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition. He also drew attention to Paragraph 13 of the Audit Committee Annual Assurance Report set out in Appendix A of the report which confirmed that the significant improvements in key areas of internal control was reflected in the Head of Audit's unqualified opinion.

17.3 **RESOLVED:**

That the Draft Annual Assurance Report for 2017/18 be approved and that Council be recommended to accept the contents of the report.

18 **Third line assurance: External Audit: Pension fund audit plan 2017/18**

18.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which provided an overview of the planned scope and timing of the statutory audit of the Shropshire Council Pension Fund. It was confirmed that the audit plan had been agreed by the Pensions Committee.

18.2 Attention was drawn to the significant risks identified, set out on page 5 of the report. The Committee were pleased to read that the Pension Fund Account was now fully funded and it was confirmed that the LGPS Central fund was also in balance as at the last actuarial valuation.

18.3 **RESOLVED:**

That the contents of the report be noted.

19 **Third line assurance: External Audit: Audit fee letter 2018/19**

19.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out details of the audit fee for the Council for 2018/19 along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2018/19 had been set by Public Sector Audit Appointments Limited at £103,061.

19.2 **RESOLVED:**

That the contents of the report be noted.

20 **Third line assurance: External Audit: Audit progress report and sector update**

20.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress. The Engagement Manager drew attention to the progress to date, set out on page 4 of the report and confirmed that the final accounts audit had begun on 4 June 2018 and that no issues had so far arisen. She explained that assurance could not yet be provided on the Jersey Property Trust as the audit was not yet completed.

20.2 The Engagement Manager informed the Committee that they were on track to deliver the audit opinion and value for money conclusion by 31 July 2018. Turning to the certification of claims and returns, she confirmed that there had been no issues with the Housing Benefit subsidy claim and that the other grant claims would be reported in their certification letter once completed. She reported that following the audit of STAR Housing, the terms of the limited assurance had been agreed however she did not envisage any issues arising from this. Finally, she confirmed that the audit deliverables were on track to be completed.

20.3 **RESOLVED:**

That the contents of the report be noted.

21 **First line assurance: Digital Transformation Update**

21.1 The Committee received the report of the Head of Workforce and Transformation – copy attached to the signed Minutes – which provided updates on the Digital Transformation Programme; the Social Care Project; the Infrastructure and Architecture Project; the Business Transformation Project; and the Customer Experience Project.

21.2 It was confirmed that the Appendix to the report (pages 5 to 16) would be taken in private session.

21.3 The Section 151 Officer took Members through the paper. He explained that although some resource issues had been identified, the teams were coping and making progress. The Committee were informed that the status of the Social Care project remained at red and that this had led to the go live date being put back to November. Turning to the ERP, the Section 151 Officer explained that due to resource issues the go live date had been put back to 31 October 2018.

21.4 In relation to the Infrastructure and Architecture Project, the Section 151 Officer informed the Committee that Wi-Fi had been rolled out throughout Shirehall and was now being rolled out to other sites. He went on to say that the Data Migration Hub which automated the flow of data from the old systems to the new system was working well and that the customer service software had now gone live.

21.5 The Section 151 Officer confirmed that the projects were still being delivered within budget and that overall the Quality Assurance Board were satisfied with the reasonable and good outcomes.

21.6 The Section 151 Officer explained that the key risk was that the Council did not have enough people to support the programme, as it was a very lean organisation, however the risk has been flagged and ways to mitigate the risk had been identified. So although these risks were being managed, there were some areas that Directors needed to be assured of before they could be signed off. He confirmed that the issues were not foreseeable and were only identified as the programme developed.

21.7 In response to a query the Section 151 Officer explained that the problems with red ratings were due to testing rather than the original specification work. In response to concerns, the Section 151 explained that university graduates were being recruited to undertake data cleansing

21.8 **RESOLVED:**

That the progress that each of the projects within the programme was making and the mitigations that were being put in place to address the issues within each work stream be noted.

22 **Date and Time of Next Meeting**

22.1 Members were reminded that the next meeting of the Audit Committee would be held on the 24 July 2018 at 12noon.

23 **Exclusion of Press and Public**

23.1 **RESOLVED:**

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

24 **Third line assurance: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)**

24.1 The Committee received the exempt report of the Principal Auditor – copy attached to the exempt signed Minutes – which provided an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

24.2 **RESOLVED:**

That the contents of the exempt report be noted.

25 **First Line Assurance: Digital Transformation Update (Exempted by Category 3)**

25.1 The Committee received the exempt Appendix to the report – copy attached to the signed Minutes.

25.2 **RESOLVED:**

That the contents of the exempt Appendix be noted.

Signed .... (Chairman)

Date: ....

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Committee and Date
Audit Committee
13th September 2018

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 24 JULY 2018 IN THE WENLOCK ROOM, SHIREHALL, ABBEY FOREGATE, SHREWSBURY, SY2 6ND. 12.00 - 12.58 PM

Responsible Officer: Shelley Davies
Email: shelley.davies@shropshire.gov.uk Tel: 01743 257718

Present
Councillor Peter Adams (Chairman)
Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

26 **Apologies for Absence / Notification of Substitutes**

26.1 No apologies for absence/notification of substitutes had been received.

27 **Disclosable Pecuniary Interests**

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

28 **Public Questions**

28.1 No public questions had been received.

29 **Third line assurance: Findings Report Shropshire Council 2017/18**

29.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2018. The report also set out the value for money conclusion for the Council.

29.2 The Engagement Lead advised that the audit of the Council's financial statements had been completed and he anticipated that an unqualified opinion would be given, along with an unqualified value for money conclusion.

29.3 The Engagement Lead noted that there was no change in regards to the materiality calculation and confirmed that there were no material concerns around the Council's ability to continue as a going concern.

29.4 It was reported that the most significant issue identified as part of the audit related to the accounting for the Council's Jersey Property Unit Trust (JPUT) as outlined in pages 10 & 11 of the report. The Head of Finance, Governance and Assurance explained that the Council had declined to adjust the accounts in relation to this issue and it was noted that this would not affect the qualification of the accounts.

29.5 The Engagement Lead highlighted a number of key actions for the Council with regard to its IT disaster recovery plan and digital transformation plan.

29.6 **RESOLVED:**

That the contents of the report be noted.

30 **Date and Time of Next Meeting**

30.1 **RESOLVED:** That it be noted that the next scheduled meeting be held on Thursday 13 September 2018 at 1.30 pm.

Signed .... (Chairman)

Date: ....

Committee and Date	Item
Audit Committee	
1st March 2018	
1:30 pm	Public

INCOME REPORT – UPDATE

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

This report provides an update on the financial controls and monitoring performed on the levels of income generated for the Council in 2018/19, which were previously reported to the Audit Committee in March 2018. For each income type the report considers key information, reporting and governance arrangements, risks and the new information included within this report now details the monitoring performed on the level of income received during the year. This detailed information is included within Appendix 1, enabling Members to consider the overall risks and assurances associated with over £0.6bn of income and resources received by the Council in the financial year. The information also allows Members to consider areas for direct questioning and further consideration by the Audit Committee should this be considered necessary.

2. Recommendations

The Committee is asked to note the contents of this report.

REPORT

3. Gross Income Analysis

3.1. Income is a key part of the Council's financial strategy. For 2018/19 the council is budgeting to receive a total of £562.0m in revenue income and £53.4m in capital income. Charts 1 and 2 show the primary sources of this income.

3.2. The table at Appendix 1 considers each income type and sets out the value, key information, reporting and governance arrangements and key risks relating to it. This updated report also includes additional information relating to the monitoring arrangements of the income generated. This has been updated in the table at Appendix 1. Some of the key information is discussed in the paragraphs that follow.

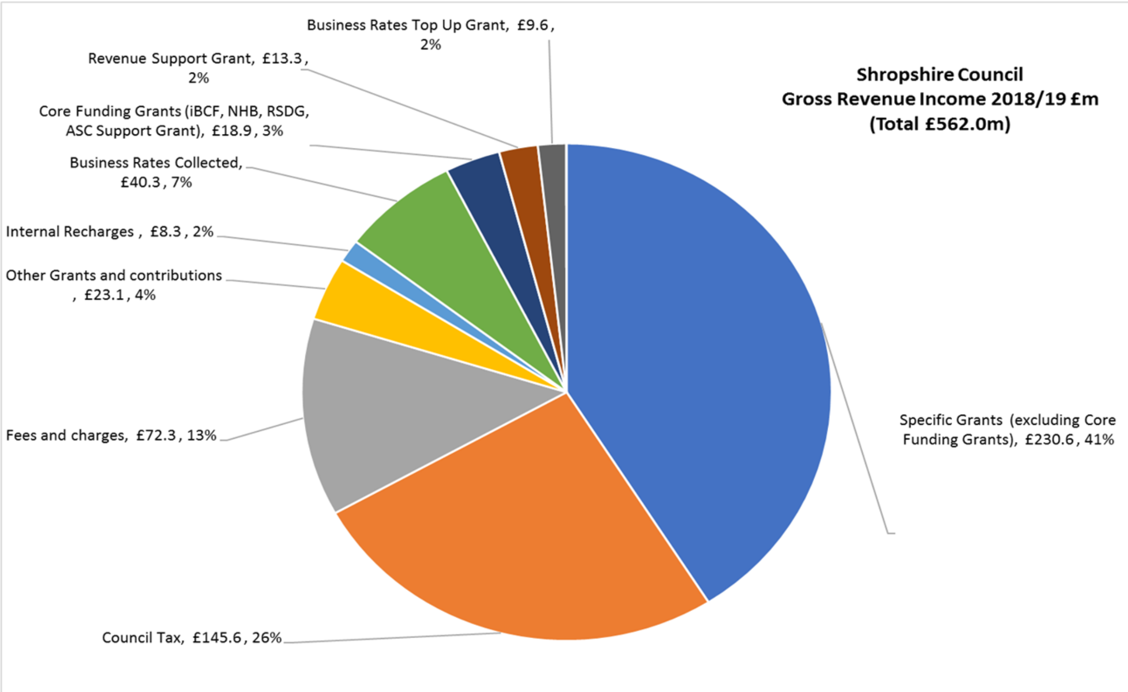
4. Governance

4.1. A number of the council's income sources have related committee reports which are presented to Cabinet and Council on a regular basis. In particular for Council Tax, Business Rates and collection fund surpluses. Other income sources are addressed in the Financial

Strategy which is reported to Cabinet periodically, usually quarterly throughout the year, and Council annually. Appendix 1 provides greater detail.

4.2. A number of the income sources must be reported on via statutory returns to Central Government such as the Revenue Outturn (RO) report and (RA) and many are subject to annual declarations from the S.151 officer. Appendix 1 provides greater detail.

Chart 1: Total Gross Revenue Income 2018/19



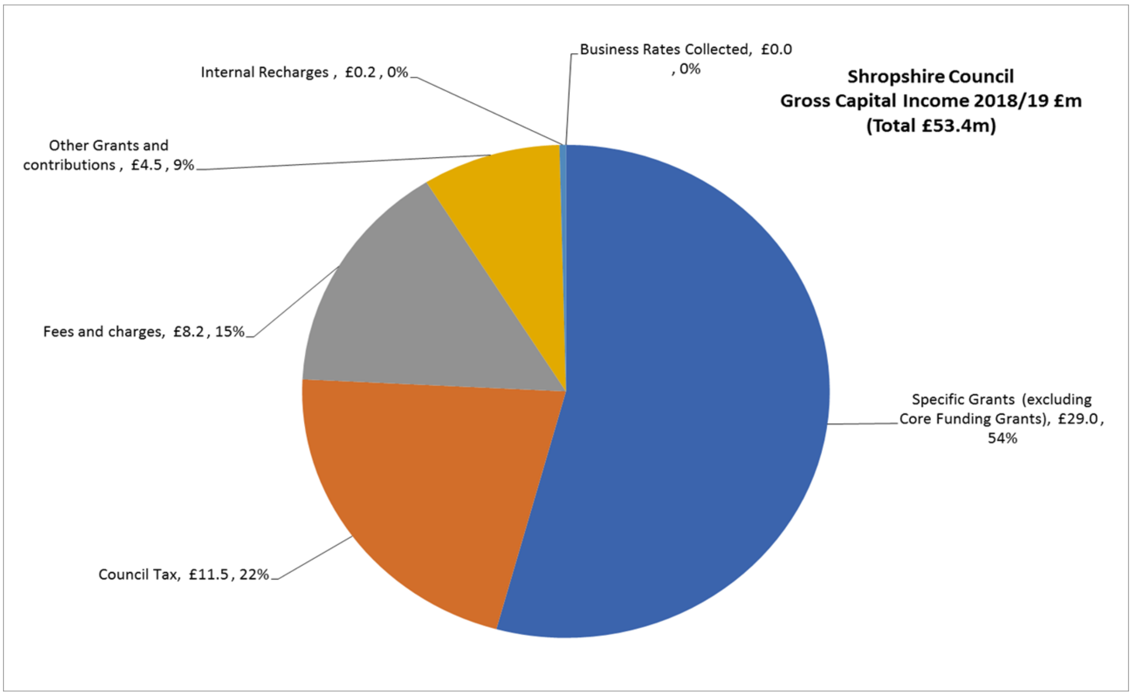


Chart 2: Total Gross Capital Income 2018/19

5. Risks and Issues

5.1. Appendix 1 details the risks and issues surrounding each different income type. Some of the most problematic issues include late notification of funding values, volatility of income streams, exposure to bad debt, having to rely on estimated values and grant allocation methodologies which don't address local need. All of these make financial planning challenging.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) None
Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter Adams (Chairman of Audit Committee)
Local Member: N/A
Appendices – Appendix 1 - Detailed table of gross income

Appendix 1 – Detailed table of gross income

REVENUE

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
1. Council Tax	£145,638,262	This is an amount calculated, in advance of each year, by every local authority. It is the amount of revenue to be collected from council tax, and is equivalent to an authority's Band D council tax multiplied by its council tax base. Shropshire collects Council tax on behalf of other precepting authorities such as Police, Fire and Town & Parish Councils. The Council is permitted to raise a core precept amount (this is capped at a maximum of 2.99% for 2018/19) and an Adult Social Care precept amount (which is set at 3% for 2018/19). For Shropshire Council a 1% increase in council tax will raise £1.375m based on 2018/19 figures.	Each year the Council estimates the number of properties that would be subject to Council Tax (the taxbase). The taxbase for the forthcoming financial year is calculated annually in the preceding November/December. The methodology followed for calculating the taxbase is as follows: • Ascertain the number of properties in each Council Tax band (A to H) shown in the valuation list as at 11 September 2017. • Adjust for estimated changes in the number of properties through new build, demolitions and exemptions. • The number of discounts and disabled relief allowances which apply as at 2 October 2017. • Convert the number of properties in each Council Tax band to Band D equivalents by using the ratio of each band to Band D and so arrive at the total number of Band D equivalents for the Council. • Adjust the total number of Band D equivalents by the estimated Council Tax collection rate for the year A report on the estimated taxbase for the forthcoming financial year is then taken to Council in December for approval. Following approval the precepting authorities (Local Authority, Police, Fire, Town and Parish Councils) are advised of the estimated taxbase level so that they may agree and set their council tax levels for the forthcoming year. They must do this by 31st January before the relevant financial year. Once all of the council tax precept values are received the Council Tax resolution report is finalised and put before Council for approval in February. The format of the Council Tax setting resolution that the Council must approve, has been previously agreed between the Local Government Association and Communities and Local Government. This is	No formal monitoring is performed and reported on Council tax levels collected during the year. However the Revenues and Benefits team produce weekly statistics on the levels collected which is reviewed by the Revenues and Benefits Team Manager. These statistics are then compared to previous years figures and any issues are reported to the Section 151 Officer. The final position on council tax levels received are reported in the Collection Fund at the year end.	<u>Bad Debts and Collection Rates</u> Since Council Tax income is accounted for at the point of issuing a bill or invoice there is a risk of bad debts accruing if bills are not paid. This results in a cost to the authority later on when the debt is written off. The collection rate for 2017/18 is estimated to be 98.4% and is estimated to be 97.8% for 2018/19. These levels are good in comparison to most authorities. Collection rates can be impacted adversely by changes in charging policy such as the recent changes to the Council Tax Reduction Scheme however this is outweighed by the total new tax generated. <u>Fluctuations in Taxbase and reliance on estimates</u> Taxbase changes impact on council tax levels. Increases in house building in the County impact favourably by increasing the tax base however, changes to council tax policy e.g. wider discounts have the potential to adversely impact Council Tax generation. Since the Financial Strategy uses estimated figures there is the potential for fluctuations to arise when final values are determined. These are managed through the Collection Fund Surplus/Deficit calculations (see 5. In the table). <u>Local Policy</u> As referred to above local policies for example: empty properties and council tax reduction schemes will impact on the levels of Council Tax collectible. <u>Council Tax Cap</u> Central Government imposes limits on how much local authorities can raise council tax before having to take the decision to a local referendum. For 2018/19 the Government increased the cap for core council tax by 1% to 2.99%. It is thought that this will revert back to 1.99% for 2019/20 and beyond. The Adult Social Care precept tis limited to a total of 6% between 2017/18 and 2020/21. Referendums are costly and the results sometimes difficult to predict so it is not an easy choice for a local authority to make. The caps

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
			set out in the annual Council Tax Resolution report which goes before Council in February each year. The authority must make an annual declaration to the Secretary of State that the Adult Social Care precept will be solely used to fund increases in Adult Social Care budgets. This is verified by Central Government through analysis of the statutory Revenue Outturn (RO) returns which are submitted throughout the year.		therefore hamper the ability for local government to raise the income that it truly requires.
Business Rates	£40,309,824	This is taxation that is levied on business properties in Shropshire and collected by Shropshire Council. A change in regulations in 2013/14 introduced Business Rates Retention. So rather than the total business rates collected going to the Government for redistribution on a national basis a proportion (50%) is now retained and shared locally amongst relevant authorities (Shropshire and Shropshire and Wrekin Fire Authority). The previous government committed to implementing 100 per cent retention of business rates by local government by 2020, and began piloting elements of such a scheme in 2017/18 in six areas of the country. A further ten pilots have been agreed for 2018/19 and it is anticipated that more will be agreed. Shropshire council, along with Telford & Wrekin Council and Herefordshire Council, applied for the 2018/19 pilot round but were unsuccessful.	Each year, by the end of January, the Council estimates the total rateable value of business rates in Shropshire for the forthcoming financial year. This is carried out using the NNDR 1 form. To this estimated total value assumptions are applied about growth/decline and reliefs/discounts that will be claimed as well as allowances made for the appeals provision. (An amount set aside for refunding business rate charges where successful appeals are made by businesses against the rating list values – these are managed by the Valuation Office Agency). The Government's multiplier is then applied to the rateable value to determine the rates chargeable. Once the net business rates collectable has been estimated, and Shropshire Council's share determined, the budget for the forthcoming year is built on these assumption and is put before Cabinet and Council for approval via the Financial Strategy in the February preceding the relevant financial year.	No formal monitoring is performed and reported on Business Rate levels collected during the year. However the Revenues and Benefits team produce weekly statistics on the levels collected which is reviewed by the Revenues and Benefits Team Manager. These statistics are then compared to previous years figures and any issues are reported to the Section 151 Officer. The final position on business rate levels received are reported in the Collection Fund at the year end.	Bad Debts and Collection Rates Since income is accounted for at the point of issuing a bill or invoice there is a risk of bad debts accruing if bills are not paid. This results in a cost to the authority in the future when the debt is written off. Fluctuations in rateable value and reliance on estimates Since the Financial Strategy relies on estimated figures there is the potential for fluctuations to arise when final values are determined and this therefore impacts the funding position. These are managed through the Collection Fund Surplus/Deficit calculations (see 5. In the table). Appeals provision estimate A key area of risk is the Appeals provision estimate. The council must maintain a provision from which refunds of business rates can be made when a business successfully challenges its rateable value. Challenges are handled by the Valuation Office Agency and are being made regularly. Awards can be high in value. Business rates are revised every five years through the issue of new ratings list. Government analysis estimates that the agency receives 900,000 appeals for each revaluation. The newest list was introduced in April 2017 so the likelihood of appeals is high at the moment. The Council has no say in the awarding of appeals and no control over the process so it is difficult to estimate the values to be provided for. If awards exceed the provision value this results in a direct cost to the authority.

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					<u>Ratings lists</u> Every five years the Valuation Office Agency introduces a new ratings list which sets the rateable values for businesses across England and Wales. The exercise has the potential to materially change the rateable value landscape in Shropshire and ultimately the level of business rates. The Council has no control over this. <u>Government control of the multiplier</u> The multiplier which is applied to the base rateable value is set by Central Government. This means that local government has no say in the resulting business rates levels in its areas (other than where it can apply discretionary reliefs) <u>Reliefs and Discounts</u> National and local discounts can be applied to certain types of businesses. This directly impacts on the amount of business rates collectible. <u>Changes to Business Rates Retention</u> Although the Local Government Finance Bill introduced in January 2017 was intended to pave the way for full retention of business rates by 2020, parliament was dissolved for the General Election before it could be passed and the Queen's Speech in June did not include provision to re-introduce the bill within the next two years. The new government confirmed a commitment of 75 per cent retention of business rates for the sector by 2020/21. Such a commitment will bring with it changes to other grant funding and potentially new burdens. Until this detail of this is known the impact is difficult to assess. This lack of clarity causes uncertainty when thinking about future funding patterns. In the event that a 100% pilot were awarded to Shropshire, it could bring a direct financial incentive, primarily through having access to 100 per cent retained growth.
3. Top Up Grant	£9,649,310	On an annual basis Government compares an Authority's Baseline Funding level (assessed need) to its Business Rates Baseline (forecast amount to be collected) and awards a top up grant where there is a shortfall or	The grant value is notified via the provisional (December prior to relevant financial year) and then final settlement announcements (February prior to the relevant financial year).	The top up grant is paid in monthly instalments to the Council as part of a consolidated payment including the Revenue Support Grant, less the Government's share of Business Rates.	<u>Assessment of need</u> The baseline funding level (assessed need) is largely based on the old 2012/13 formula grant methodology.

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		levies a tariff where there is a surplus. Shropshire is a top up authority as its baseline business rates do not meet need. This is paid in the form of a section 31 grant. The value is capped in line with the increase in the multiplier.		A schedule detailing the payments and dates of payments is agreed in April for the remainder of the year. No formal monitoring is performed of this amount until the end of the financial year when the level of corporate funding received is reconciled to the budget. However if the funding was not received each month, the Treasury department would note this as they project this income within cash forecasts to be able to perform cash investments.	Formula funding allocates funding according to estimates of local resources such as Council Tax and of the demand for each local service, through formulae based on population and other local data. This is not always reflective of need, especially in a sparse rural county like Shropshire. Late notification of values The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. The announcement is subject to delays and changes between the provisional and final settlement.
4. Revenue Support Grant (RSG)	£13,301,166	Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement and distributed according to assessed need.	The grant value is notified via the provisional (December prior to relevant financial year) and then final settlement announcements (February prior to the relevant financial year).	The Revenue Support Grant is paid in monthly instalments to the Council as part of a consolidated payment including the top up grant, less the Government's share of Business Rates. A schedule detailing the payments and dates of payments is agreed in April for the remainder of the year. No formal monitoring is performed of this amount until the end of the financial year when the level of corporate funding received is reconciled to the budget. However if the funding was not received each month, the Treasury department would note this as they project this income within cash forecasts to be able to perform cash investments.	Assessment of need Assessed need is largely based on the old 2012/13 formula grant methodology. Formula funding allocates funding according to estimates of local resources such as Council Tax and of the demand for each local service, through formulae based on population and other local data. This is not always reflective of need, especially in a sparse rural county like Shropshire. Potential for late notification of values The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. The announcement is subject to delays and changes between the provisional and final settlement. Reducing Values As a result of austerity plans Local Authorities have seen a continued reduction in Revenue Support Grant which in 2013/14 stood at over £67m and by 2018/19 will have fallen to £13m
5. Collection Fund Surplus/(Deficit)	(£130,111)	A surplus of council tax and business rate income collected over the level assumed for budget purposes. Any such surplus or deficit is a one-off amount and is shared	The surplus or deficit on the 2017/18 financial year will impact on the budget available for the following financial year i.e. 2018/19.	The Collection Fund Surplus or Deficit is estimated in January as part of the budget setting process, and then no further monitoring is	Use of estimates The collection fund outturn position relies on estimates based on part year data so there is the

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		between the billing authority and its major precepting authorities (police and fire).	As described in 1. and 2. above Council tax and Business Rates income estimates are made in the February prior to the forthcoming financial year. They are therefore necessarily based on estimates. The collection fund estimate is calculated in January each year using data from the Revenues & Benefits system Northgate. The Council must notify the major precepting authorities of their share by the end of January each year. The Estimated Collection Fund Outturn Report goes to Cabinet and Council in February each year. The actual collection fund surplus or deficit arising is not calculated until April/May via the NNDR3 form as part of the financial closedown process. The actual outturn is not reported to Cabinet but instead informs the transactions for the closure of the accounts and feeds into the estimated position for the following financial year.	performed until the Collection Fund is closed down within the Statement of Accounts and calculated at the end of the year when debtor and prepayments are final figures and not subject to estimates. Any difference in the outturn position from that estimated is not realised for more than 12 months after the year end, so would not impact on that financial year's position.	risk of swings in the assumptions or exceptional events occurring which may alter the estimated values materially. Due to the cycle of estimates and actual calculations the final outturn impact of one year will not be felt for more than 12 months after the end of that year.
6. Core Grant – Improved Better Care Funding	£4,328,800	The Better Care Fund (BCF) is the national programme, through which local areas agree how to spend a local pooled budget in accordance with the programme's national requirements. The pooled budget is made up of health (Clinical Commissioning Group (CCG)) funding as well as local government grants, of which one is the Improved Better Care Fund (iBCF). The iBCF was first announced in the 2015 Spending Review, and is a paid as a direct grant to local government, with a condition that it is pooled into the local BCF plan. The IBCF grant allocations were increased in the 2017 Spring Budget. According to the grant determination, the funding can be spent on three purposes: • Meeting adult social care needs • Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready • Ensuring that the local social care	The grant values were announced in Spring 2017 and are confirmed via the provisional and final settlements. According to the grant determination, the funding can be spent on three purposes: • Meeting adult social care needs • Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready • Ensuring that the local social care provider market is supported NHS England are providing guidance on how this is to be reported to them and whether the grant can be carried forward.	Reconciliations of the Improved Better Care Fund Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Potential for late notification of values</u> The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. <u>Conditions</u> There are conditions on how the grant can be spent so the funding application is limited to these. The expenditure plans are subject to scrutiny and agreement from the CCG via the Better Care Fund governance processes. <u>Ongoing nature</u> Allocations have been notified up to 2019/20. Beyond this there is no suggestion that the funding will continue. This means that it cannot be assumed that allocations towards the Council's funding gap will be available.

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		provider market is supported			
7. Core Grant – New Homes Bonus	£7,121,970	The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes. Having previously been paid each year for 6 years. In 2017/18 it was reduced to a five year payment and in 2018/19 it is paid for a four year period. The 2018/19 allocation is made up as follows: 2015/16 NHB £1,595,230 2016/17 NHB £1,866,110 2017/18 NHB £1,295,200 2018/19 NHB £2,365,430 **Total £7,121,970** The rationale for the reduction from 6 years to 4 was based on top slicing funding for the Adult Social Care Support Grant and the Improved Better Care Fund as well as raising the threshold for growth before which the grant would be paid in order to sharpen the incentive for growth.	The grant values are confirmed via the provisional and final settlements. There are no conditions on what the funding can be spent on and no reporting requirements. It is planned to use the total of this grant to help close the funding gap year on year. (£5m through a regular base budget contribution to the financial strategy reserve year on year and, at the moment, any surplus over this amount to be applied to funding the gap as shown in the core grant funding section of the Financial Strategy).	Reconciliations of the New Homes Bonus Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Potential for late notification of values The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. A case in point is that the New Homes Bonus values announced in the provisional settlement were £1.25m higher for 20218/19 than previous assumptions. Whilst this change has now been built into budget setting assumptions it is still not yet known why this increase was so great. The matter is being looked into. Ongoing nature Allocations have been notified up to 2019/20. Beyond this there is no suggestion that the funding will continue. Targets Latterly the New Homes Bonus grant is only awarded for growth over and above 0.4% so the expectation is that growth continues to exceed this target. Any changes to this will directly impact on future grant levels.
8. Core Grant – Rural Services Delivery Grant	£6,614,131	Rural grant was introduced in 2014-15. Funding was provided in recognition of the possible additional costs of delivering services in sparsely populated areas. The grant is allocated on the basis of population super sparsity. Super sparsity measures the proportion of an authority's population that resides in output areas with fewer than 0.5 persons per hectare.8 Authorities in the top quartile receive funding.	Paid as un-ringfenced section 31 grant.	Reconciliations of the Rural Services Delivery Grant account are performed on a bi-annual basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Potential for late notification of values The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. In the final settlement the RSDG amount was £1.22m higher for 20218/19 than previous assumptions as the Government attempted to recognise the need for increased funding in rural areas. The increase is welcome but the last minute nature of the announcement makes planning difficult

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
					Ongoing nature Allocations have been notified up to 2019/20. Beyond this there is no suggestion that the funding will continue.
9. Core Grant – Adult Social Care Support Grant	£871,140	When New Homes Bonus was top sliced in 2017/18 one of the purposes was to introduce the Adult Social Care Support Grant.	The grant values are confirmed via the provisional and final settlements.	Reconciliations of the PFI Grant accounts are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Potential for late notification of values The final settlement is not announced until February,just weeks before the commencement of the financial year which relies on this information for budget setting purposes. Up until the final settlement announcement in 2018 it was assumed that there would be no further allocation of the ASC grant. However, last minute changes to the final settlement saw the introduction of a further allocation. Allocation methodology The Adult Social Care Support Grant was allocated to relevant authorities based on the 2013-14 Relative Needs Formula (RNF). The RNF methodology employed focusses predominantly on deprivation rather than the age profile of residents within local government areas. As a result, in 2017/18 the allocation for Shropshire has been calculated at £1.400m, which was £0.185m less than the balance of funding removed under the New Homes Bonus changes. The new 2018/19 allocation is again distributed using the old methodology and so nationally it can be seen that some Local Authorities are benefitting from the funding when it is not actually required. It is not getting to where it is needed the most.
10. Fees & charges	£72,336,910	The Council is able to raise income from a number of sources reducing reliance on other forms of income. The total Fees & Charges income can be further categorised into income arising from fees and charges for the provision of services which can be set at the discretion of the Council (discretionary) and income where the levels are set by statute or restricted by regulations or guidance. Non-Discretionary Income 201819 - £38.178m	The Authority prepares an annual Fees & Charges report in February of each year which is presented alongside the budget for the forthcoming year. This report recommends the level of fees and charges to be applied in the new financial year and contains a full schedule of discretionary charges. The Fees & Charges report concentrates on charging for discretionary services where the authority has a choice about fee levels.	The level of fees and charges generated within service areas is monitored through revenue budget monitoring. Any issues with the level of fees received would show as an overspend within a service and this would be reported in the quarterly budget monitoring reports that are considered by Cabinet.	Powers to charge Local Authorities must operate within their powers to charge which impose some restrictions. The Council has the power to charge for some services under various legislation dating back many years e.g. 1949 Prevention of Damage by Pests Act. The Local Government Act 2003 provides clarity over charging powers and is clear that a local authority can charge for discretionary services on the basis of recovering the full costs of providing the service but that it should not make a profit year on year. The same Act also covers local authority's power to

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		Non-discretionary income includes e.g. planning fees, which are set at a statutory level and other fees the level of which must follow statutory guidance (for example charges for residential accommodation which are governed by CRAG (Charges for Residential Accommodation Guide)). <u>Discretionary Income 2018/19 - £34.159m</u> The Council generates discretionary income from contracts for the provision of specific services e.g. payroll services. The main areas where the Council has discretion to agree fees and charges outside of any contract or service level agreement are: • Car parking • New road and street works • Theatre • Leisure and Visitor Economy • Music and Arts Services • Registrars			trade whereby a profit/surplus can be made as long as trading is carried out through a company. A key point is that charges should be set at the right level to balance the subsidy between service user and taxpayer. <u>Volatility</u> Discretionary income can vary significantly and requires careful management and monitoring throughout the year. Variations in income can significantly affect the Council's financial position. By detailed consideration, via the Fees & Charges report, of income streams and factors which affect the levels of income the Council receives, the risk of significant budget variations caused by a shortfall in income levels will be reduced.
11. Other Grants and Contributions	£23,061,550	This category captures income from a number of sources. <u>Health Income</u> 60% of income in this category comes from health partners in the form of Continuing Healthcare contributions towards complex adult care packages, jointly funded children's placements and funding from the Better Care Pooled Fund to support delivery of services with a health outcome. <u>Other Authorities and Organisations</u> A further 25% of income comes from other local authorities or other organisations towards delivery of services which they may use. For example the Joint Adoption Agency or the Safeguarding Board. Or grants from non-government agencies such as the Arts Council. <u>Other</u> The remaining 15% covers varied income streams for example S106 related income.	Values of income in this category are reported in the annual Fees & Charges report which goes to Cabinet and Council in February. Income in this category in the main is subject to individual contractual arrangements and partnership agreements.	The level of other grants and contributions received within service areas is monitored through revenue budget monitoring. Any issues with the level of fees received would show as an overspend within a service and this would be reported in the quarterly budget monitoring reports that are considered by Cabinet.	<u>Volatility</u> Other Grants income can vary significantly and requires careful management and monitoring throughout the year. Due to the nature of the category it would usually be possible to reduce expenditure in line with any reductions in income as long as this can be planned for appropriately.

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
12. Specific Grants – Dedicated School Grant	£124,703,010	The Dedicated Schools Grant (DSG) is the main source of revenue funding for Local Authority maintained schools, paid to the Council by the Department for Education. Allocations to Local Authorities are set annually and paid to the Council monthly. In 2018/19, the DSG will comprise 4 distinct funding blocks; schools block, central school services block, high needs block and the early years block. 2018/19 allocations were published in December 2017. On 14 September, the Secretary of State for Education announced a new national funding formula for schools and high needs from April 2018 with an additional £1.3bn funding nationally over the next 2 years. This follows the introduction of a national funding formula for early years in April 2017.	Committee reports are produced for Schools Forum on DSG. Schools Forum acts in a consultative role for any changes to the local funding formula or any proposed changes to funding nationally as was the case with the introduction of new national funding formula. Schools Forum is a decision making body on how much funding may be retained centrally by the Local Authority, any proposed carry forwards of deficits and proposals to de-delegate funding from schools e.g for Maternity Pay. Schools Forum meets approx. 8 times a year depending on what issues are at hand. A regular DSG Budget Monitoring report is presented to Schools Forum, more frequently than not for information only to report on any projected over or underspends on the centrally retained DSG. Within the published Statement of Accounts there is a section on DSG within the “Notes to the core financial statements” section which sets out the agreed distribution of the Council’s DSG and any carry forward at the year-end.	Reconciliations of the Dedicated Schools Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Formula Changes Until 2018/19, the allocation of DSG to schools was determined locally through a local funding formula. The formula could be flexed to account for local factors. From 2018/19, the National Funding Formula (NFF) will be phased in by the Government over the next two years, 2018-19 and 2019-20, by the inclusion of a funding floor and gains cap. Shropshire Schools Forum agreed to recommend to Shropshire schools, through the consultation process, the distribution of funding to schools from April 2018 in line with the transitional NFF allocations. It was concluded that other options would result in winners and losers, could not deliver the guaranteed uplift in per pupil funding for all schools and would not provide a smooth transition to the NFF when fully implemented. There has been no announcement over the levels of funding provided through the NFF beyond 2019-20 as 2020-21 is within the next Comprehensive Spending Review Period. There is a risk that the national funding for schools and high needs could be reduced from 2020-21. There are a number of issues raised with the new national funding formula: • A general point is that schools feel that they will still be worse off in real terms as a 1% increase is below inflation. • Also the new national funding formula is excessively weighted towards deprivation and English as an additional language factors at the expense of the basic pupil entitlement for all pupils. With the national funding formula for High Needs, some issues were; • Shropshire is one of the poorest funded counties for High Needs Block nationally. • While Shropshire believes that the national funding formula system represents a stable system this stability is at the expense of fairness due to a large historic spend factor. A baselining exercise founded on historic spend could lock unfairness into the system going forward.

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					• The overall increase in High Needs funding nationally is insufficient to meet increase in demand for services particularly placement costs and Post 16
13. Specific Grants – Housing Subsidies	£67,099,590	There are three main housing benefit subsidy grants: <u>Rent Allowance Subsidy (£56.0m) and Rent Rebate Subsidy (£10.5m):</u> These total the maximum qualifying expenditure for which the authority can claim Housing Benefit subsidy. Rent rebate is Housing Benefit paid in respect of rent for Council Tenants or Housing Associations and Rent Allowance is housing benefit paid in respect of anyone else. The authority is not able to claim for all expenditure, for example it cannot claim the full amount for claimants lodged in temporary accommodation, certain private rental tenancies and war pension disregards. <u>Housing Benefit Admin Subsidy (£0.6m)</u> The amount of money paid to the LA by DWP towards the cost of administration	There are four certified claim forms submitted in the year, around which payments are made • FEBRUARY – Initial Estimate for forthcoming financial year • AUGUST – midyear estimate for financial year • APRIL – Final Claim form for financial year • NOVEMBER – Final audited claim form for financial year Payments are made every month, split between Rent Allowance and Rent Rebate. The payments for May are adjusted for any amount owed to DWP or owed to the Council. The payments are amended later in the year (October) to take account of the revised mid-year estimate	Reconciliations of the Rent Allowance Subsidy and Rent Rebate Subsidy Grant accounts are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Penalties</u> The amount of subsidy an authority receives in a year depends on its combined amount of authority error and administrative delay overpayments compared with its total payment of Housing Benefit. If in a year the percentage of authority error and administrative delay overpayments (as compared with the correct payments) is: ○ Up to 0.48% the authority gets 100% subsidy on all such overpayments; ○ Above 0.48% and up to 0.54% the authority gets 40% subsidy on all such overpayments; ○ Above 0.54% the authority gets 0% subsidy on all such overpayments. It follows that there is a large financial incentive for an authority to: ○ Ensure claims are assessed accurately ○ Ensure claims are assessed quickly
14. Specific Grants – Public Health Grant (including 0-5yrs allocation)	£12,000,000	This is a ring-fenced grant paid to Local Authorities by Central Government. The national allocation is £3.215bn. The money is to be used to improve the health of the local population. There are specific responsibilities for Health Visiting, School Nursing, Substance Misuse and Sexual Health Prevention.	Local Authorities have to forecast and report expenditure against the sub-categories in the Revenue Account (RA) and Revenue Outturn (RO). These are returns for the Ministry of Housing Communities and Local Government (MHCLG) who will share the data with Public Health England (PHE). The S151 Officer and Director of Public Health must also return an annual declaration confirming that the grant has been spent in accordance with the conditions.	Reconciliations of the Public Health Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Year on year cuts</u> The grant is subject to yearly cuts of approximately 2.6% per annum. <u>Future of the ring fence</u> The ring-fence restriction is currently only proposed until 2019-20. <u>Underfunding</u> Shropshire is currently an underfunded authority with allocation per head in 2018-19 being £38 with the England average being £57.
15. Specific Grants – Pupil Premium Grant	£5,496,420	The Pupil Premium Grant (PPG) is a source of revenue funding for Local Authority maintained schools, paid to the Council by the Department for Education. The purpose of the funding is to raise attainment of disadvantaged pupils.	There are no routine reports for this funding however, any fundamental change to the grant would be reported to Schools Forum. Schools are written to bi-annually to confirm their provisional and actual allocations once the Council has been informed of the allocations by the Department for Education.	Reconciliations of the Pupil Premium Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Allocation methodology</u> Allocation are based on a census count on one particular day which may not be reflective of actual pupil numbers. Allocation relies on pupils eligible for Free School Meals actually registering for Free School Meals.

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		Allocations to Local Authorities are set annually and paid to the Council quarterly. Pupil Premium allocations to schools are determined by pupil numbers recorded in the January census data on numbers of pupils eligible for free school meals in the last 6 years, children adopted from care and service children. The per pupil rates for 2018/19 financial year have been published. • The rates for Primary and Secondary Ever 6 FSM pupils have remained at the same levels as 2017/18. • The Looked-after children (LAC) defined in the Children Act 1989 as one who is in the care of, or provided with accommodation by, an English local authority = £2,300 in 2018/19 which is an increase from £1,900 per pupil in 2017/18.	An annual return has to be sent to the Education Funding Agency, authorised by Chief Finance Officer to certify that the conditions of grant for Pupil Premium Grant have been met for that financial year.		<u>Future Cuts</u> Although PPG per-pupil funding has been frozen in real terms between 2017/18 and 2019/20, further cuts to funding elsewhere in the schools funding system may impact on the future success of the pupil premium as schools are increasingly using the PPG grant funding to cover day-to-day costs for all pupils, diluting its impact for disadvantaged pupils.
16. Business Rates Retention Scheme – Section 31 Grants	£5,788,200	These are a collection of grants which are distributed at a national level to support local authorities with the costs of national reliefs and discounts in relation to business rates charges. Elements include compensation for the Small Business Rate Relief Scheme (£4.3m) and the Business Rates Compensation Grant (£0.8m).	The grant values are confirmed via the provisional and final settlements.	Reconciliations of the Business Rates Retention Scheme – Section 31 Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Potential for late notification of values</u> The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes.
17. Specific Grants – Private Finance Initiatives	£4,708,260	The authority has commissioned a number of services via Private Finance Initiative arrangements. This means the relevant facilities are built and provided by a contractor to whom the Council pays an annual fee (Unitary Charge). As part of the arrangement the Government provides the Council with a specific grants towards this annual fee. The Council is deemed to control the services provided under these two PFI schemes and, as ownership of property,	The grant values are constant and not subject to change unless any material changes are made the relevant contract.	Reconciliations of the PFI Grant accounts are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Long Term</u> PFI contracts are long term and grant values determined at the outset for the period of the contract which, in terms of financial planning, is a benefit.

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment. Details of the Authority's PFI Contracts and related grants: <u>Waste PFI £3.186m Grant</u> On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years. <u>Quality in Community Services PFI £1.523m Grant</u> On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings: • Three Resource Centres • A Nursing Home • A Joint Service Centre • An Intermediate Care Hub			
18. Specific Grants – Additional Better Care Fund	£3,959,450	After the Council's budget for 2017/18 was set, local authorities received the announcement within the Spring Budget Statement that they were to receive additional Better Care Funding over the next three financial years. The Better Care Fund (BCF) is the national programme, through which local areas agree how to spend a local pooled budget in accordance with the programme's national requirements. The pooled budget is made up of health (Clinical Commissioning Group (CCG)) funding as well as local government	There are conditions attached to this funding, • the grant must be spent on services not already budgeted for. • the additional funding is subject to a series of strict targets and measures that restrict its use. • The funding is explicitly focused on reducing pressures on the NHS, particularly delayed hospital discharges. This, and the condition of additionally of expenditure as above, has meant that a list of	Reconciliations of the Better Care Fund Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	<u>Potential for late notification of values</u> The final settlement is not announced until February, just weeks before the commencement of the financial year which relies on this information for budget setting purposes. <u>Conditions</u> There are conditions on how the grant can be spent so the funding application is limited to these. The expenditure plans are subject to scrutiny and agreement from the CCG via the Better Care Fund governance processes. <u>Ongoing nature</u>

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		funding.	new schemes and pilots has been created in order to make use of the grant, focusing on ways that NHS related outcomes can be improved in this financial year. The grant must be pooled into the Better Care Fund, and therefore there is a requirement that the Council's plans for grant expenditure are jointly agreed with Shropshire CCG and approved by Shropshire's Health and Wellbeing Board. NHS England are providing guidance on how this is to be reported to them and whether the grant can be carried forward.		Allocations have been notified up to 2019/20. Beyond this there is no suggestion that the funding will continue. This means that it cannot be assumed that allocations towards the Council's funding gap will be available.
19. Specific Grants – Education Funding Agency (School Sixth Forms)	£1,660,710	Colleges, providers, schools and academies receive annual funding allocations from Education and Skills Funding Agency (ESFA) for the provision of 16 to 19 education. The Council passes on allocations to those maintained schools with sixth-form provision.	There are no routine reports for this funding, however any fundamental change to the grant would be reported to Schools Forum. An annual return has to be sent to the Education Funding Agency, authorised by Chief Finance Officer to certify that the conditions of grant for Post 16 Grant have been met for that financial year.	Reconciliations of the Education Funding Agency Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Future Cuts There is a risk that the national funding for schools could be reduced from 2020-21. i.e. within the next Comprehensive Spending Review
20. Specific Grants – Independent Living Fund	£1,559,310	This is a grant from MHCLG to provide support to Local Authorities towards the cost of expenditure incurred providing funded support for disabled people living an independent life and transferring to local authority support on closure of the Independent Living Fund on 30th June 2015.	There are no specific reporting requirements – The Secretary of State determines the authorities to which the grant will be paid and the amounts payable. Internally - a list of clients that transferred with the initial grant allocation is known and Finance can monitor current costs against the initial list and grant amount received. The ILF scheme is closed to new applications.	Reconciliations of the Independent Living Fund Grant account are performed on a quarterly basis to confirm that grant is being received from Government as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Year on year reductions An annual reduction to the grant of circa 3.5% is applied which should represent the reducing cost of funded support due to death but this may not occur in reality.
21. Specific Grants – Other (under £500,000)	£3,591,290	There are 27 further Specific Grants which the Council is expecting to receive in 2018/19. In general these grants are given conditionally to support a certain type of expenditure. For example cost relating to supporting Unaccompanied Asylum Seeking Children (£338k) or Homelessness Support Grant (£337k).	Usually specific grants come with conditions and sometimes with reporting requirements.	Reconciliations of all specific grant accounts are performed on a quarterly basis to confirm that grant is being received as anticipated. Any queries are then resolved so that the full grant is received and accounted for within the financial year.	Potential for late notification of values Some of these grants may be notified alongside the final settlement which is not announced until February just weeks before the commencement of the financial year which relies on this information for budget setting purposes. Other grants are notified via a range of sources, usually directly from the department involved at a timing of their choosing. This can be a challenge for planning and can make confirming values and conditions a time consuming exercise.
22. Internal Recharges	£8,280,870	This includes the costs of support services such as IT, HR, Finance, Legal and Property Services. These services	Values of income in this category are reported in the annual Fees & Charges report which goes to Cabinet and Council in February.	The level of income achieved through internal recharges is monitored through revenue budget	Volatility Internal recharge income can vary significantly and requires careful management and

Name	Value (2018/19 budget)	Key facts	Reporting and Governance	Monitoring Process	Risks
		provide support functions to the frontline services in their service delivery. This element represents additional charges over and above the internal market recharges (which are eliminated for this exercise). These additional charges are reached by agreement between the parties concerned. Examples include: • Surveyors budgeting for income from the capital programme to cover the costs of their work on capital projects. • Printing Services budgeting for income from other Council departments who use their services. • Passenger Transport budgeting for income from other council Departments who use their services.	Income in this category is subject to internal agreements.	monitoring. Any issues with the level of fees received would show as an overspend within a service and this would be reported in the quarterly budget monitoring reports that are considered by Cabinet.	monitoring throughout the year. Due to the nature of the category it would usually be possible to reduce expenditure in line with any reductions in income as long as this can be planned for appropriately.
Total Gross Revenue Income:	**£561,950,062**				

CAPITAL

Name	Value (2018/19 budget)	Details	Reporting and Governance	Monitoring Process	Risks
1. Government Grants	£28,969,300	Department of Transport Allocations £14,901,000 Local Transport Plan indicative funding of £13,275,000. Integrated Transport funding of £1,626,000. Learning & Skills Capital Funding £4,721,482 Condition grant provisional funding of £2,500,000. Basic Need funding of £1,354,815 brought forward from previous years and fully allocated against individual school schemes to be delivered in 2018/19. Devolved Formula Capital funding of £700,000 Special Provision Allocation of £166,667. These grants facilitate vital school	The financial strategy for the forthcoming year and future years sets out the Capital programme in which government grant levels and risks are considered. The financial strategy for the forthcoming year and beyond is presented to both Cabinet, Council and the Performance Management and Scrutiny Committee in the February prior to the year commencing. The strategy is then developed through a series of reports to Cabinet (and Performance Management and Scrutiny committee) during the year. Usually four updates on a quarterly basis. Each grant will have its own reporting requirement.	Government Grants received are reconciled on a monthly basis and feed into the monthly monitoring reports produced for budget holders and Directors. These then feed into the quarterly financial monitoring report for Cabinet therefore would highlight any issues with specific capital schemes if funding changed from original profile.	There are no specific risks to raise with regard to government grants other than the potential for changes to be made to allocations at a point in time late in the day. Capital projects are usually able to adapt to such last minute changes in funding.

Name	Value (2018/19 budget)	Details	Reporting and Governance	Monitoring Process	Risks
		improvement schemes. BDUK Broadband £5,091,201 Shropshire's Broadband Project is ongoing and continues to deliver improved connectivity to Shropshire businesses and residents. Local Enterprise Partnership (LEP) £2,002,759 The Council has been awarded LEP funding for three projects after submission of business cases in 2015/16 and these projects continue until 2020/21. Department for Health HOLD Grant £1,500,000 The HOLD (Home Ownership for Clients with Long Term Disabilities) Project enables individuals with enduring physical and / or learning disabilities to buy a home of their own.			
2. Capital Receipts	£11,495,058	These are the proceeds from the sale of fixed assets such as land and buildings. These sums can be used to finance new capital expenditure. More recently the Government introduced flexibilities which allow Local Authorities to utilise capital receipts generated in this period to fund the revenue costs of service reform. Any qualifying expenditure under this flexibility must be on projects that are designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years. For Shropshire, this includes redundancies and the Digital Transformation Programme. In 2018/19 further assets totalling £15,306,844 are being considered for disposal. These assets include the small holding estate (£6,950,000), Economic Development assets (£987,644), Bridgnorth Westgate (£900,000) and former school sites (£1,350,000).	The financial strategy for the forthcoming year and future year's sets out the Capital programme in which capital receipts levels and risks are considered. The financial strategy for the forthcoming year and beyond is presented to both Cabinet, Council and the Performance Management and Scrutiny Committee in the February prior to the year commencing. The strategy is then developed through a series of reports to Cabinet (and Performance Management and Scrutiny committee) during the year. Usually four updates on a quarterly basis.	Capital receipts generated are monitored on a monthly basis and discussed at the Chief Officers Steering Group for Capital. The receipts generated are also reported in the quarterly financial monitoring report for Cabinet which tracks the receipts received and potential commitments against capital receipts in the year.	Restrictions There are certain restrictions on how the income generated from a capital receipt can be utilised. In 2017/18 flexibilities were introduced which allow the Council to utilise capital receipts generated in this period to fund the revenue costs of service reform. Any qualifying expenditure under this flexibility must be on projects that are designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years Inability to sell The financial strategy relies on the delivery of capital receipts which in turn relies on sales being completed according to plan. Changes in market conditions or local policies have the potential to derail forecast sales plans and ultimately upset the funding of the capital programme (or even the revenue budget where flexibilities are being relied upon).
3. Self-Financed Prudential Borrowing	£8,197,000	Borrowing which is self-financed by the authority. i.e. the funded projects pay the borrowing costs.	Borrowing arrangements and borrowing levels are monitored and reported via the Treasury Management Team. The Treasury Strategy is reported to Cabinet,	Self Financed Prudential Borrowing is monitored on a monthly basis and feeds into the monthly monitoring reports produced for budget holders	Interest Rates Ability to borrow at affordable levels depends on prevailing interest rates which are subject to fluctuation.

Name	Value (2018/19 budget)	Details	Reporting and Governance	Monitoring Process	Risks
			Council and Audit Committee in February each year. A mid year review of the Treasury Strategy is presented to the same committees between November and December each year. A Treasury management update is reported to Cabinet quarterly.	and Directors. These then feed into the quarterly financial monitoring report for Cabinet therefore would highlight any issues with specific capital schemes if funding changed from original profile.	Penalty Charges Early repayment of debt can be subject to prohibitive penalties.
4. Major Repairs Allowance	£4,526,210	The Major Repairs Allowance (MRA) represents the estimated long-term average amount of capital spending required to maintain housing stock in its current condition. It is calculated according to the profile of the housing stock by archetype and anticipates a depreciation period of 30 years.	The financial strategy for the forthcoming year and future year's sets out the Capital programme in which the MRA level and associated risks are considered. The financial strategy for the forthcoming year and beyond is presented to Cabinet, Council and the Performance Management and Scrutiny Committee in the February prior to the year commencing. The strategy is then developed through a series of reports to Cabinet (and Performance Management and Scrutiny committee) during the year. Usually four updates on a quarterly basis.	The Major Repairs Allowance would not change from the figure reported in the finance strategy for the capital programme and so this is calculated once a year and fully reconciled at the year end.	
5. Other Contributions	£207,699	The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. It came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010. The levy may be payable on development which creates net additional floor space, where the gross internal area of new build exceeds 100 square meters. That limit does not apply to new houses or flats, and a charge can be levied on a single house or flat of any size, unless it is built by a 'self builder'. The Council will allocate the CIL to be spent on various infrastructure requirements. Often allocations are made to Local Town and Parish Councils.	The financial strategy for the forthcoming year and future years sets out assumptions for CIL.	Other contributions received are reconciled on a monthly basis and feed into the monthly monitoring reports produced for budget holders and Directors. These then feed into the quarterly financial monitoring report for Cabinet therefore would highlight any issues with specific capital schemes if funding changed from original profile.	
6. Other Grants	£2,541	Historic England monies funding		Other Grants received are reconciled	

Name	Value (2018/19 budget)	Details	Reporting and Governance	Monitoring Process	Risks
		preservation work at Nags Head Engine House at Pontesford.		on a monthly basis and feed into the monthly monitoring reports produced for budget holders and Directors. These then feed into the quarterly financial monitoring report for Cabinet therefore would highlight any issues with specific capital schemes if funding changed from original profile.	
Total Gross Capital Income:	**£53,397,808**				

Committee and Date	Item	Paper
Audit Committee – 13th September 2018		

RISK & INSURANCE ANNUAL REPORT 2017/2018

Responsible Officer Angela Beechey
e-mail: Angela.beechey@shropshire.gov.uk Tel: (01743) 252073 Fax: (01743) 252858

1. Summary

1.1 This report sets out the challenges and achievements accomplished by the Risk and Insurance Team during 2017/2018, which has again seen an intense and varied workload. The harsh winter caused problems on the Council's network and this saw a large increase in the number of pothole claims. Coupled with the fact that the insurance team has two members of staff absent on maternity leave, the winter has been extremely challenging for the small team.

1.2 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

1.3 Many of the insurance tables are shown in colour in order that the information held in the tables can be clearly seen. We appreciate that reports are printed in black and white for members and would therefore respectfully refer members to the report located on the Audit Committee web pages.

1.4 Please note that the insurance data relates to the policy year 2018/2019 which ends 31st March 2018.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Management and Opportunities Appraisal

3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk and Insurance Team ensures that processes and protocols are established and embedded which support effective decision making.

3.2 Insurance is an effective method of risk transfer and a balance of self-insurance and third-party insurance is used based on our risk appetite.

4. Financial Implications

4.1 Failure to effectively and strategically manage the risks associated with developing a sustainable budget will potentially leave the Council exposed to external challenge and financial ramifications.

4.2 Through the purchase of an insurance policy the large financial risks are transferred.

5. Background

5.1 This year saw the Audit Team undertake a risk management audit and we are pleased to confirm that the final report again identified the assurance level as "**Good**".

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and has now been fully embedded by the Risk and Insurance Team throughout the council. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

6.1.1 Throughout 2017/2018 our strategic risks were reviewed on a bi-monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.

6.1.2 This was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.

6.1.3 The Risk Profile & Action Plan for managing our strategic risks details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively.

6.1.4 The Risk Profile & Action Plan now also includes target scores for each strategic risk to be achieved by the end of the current financial year.

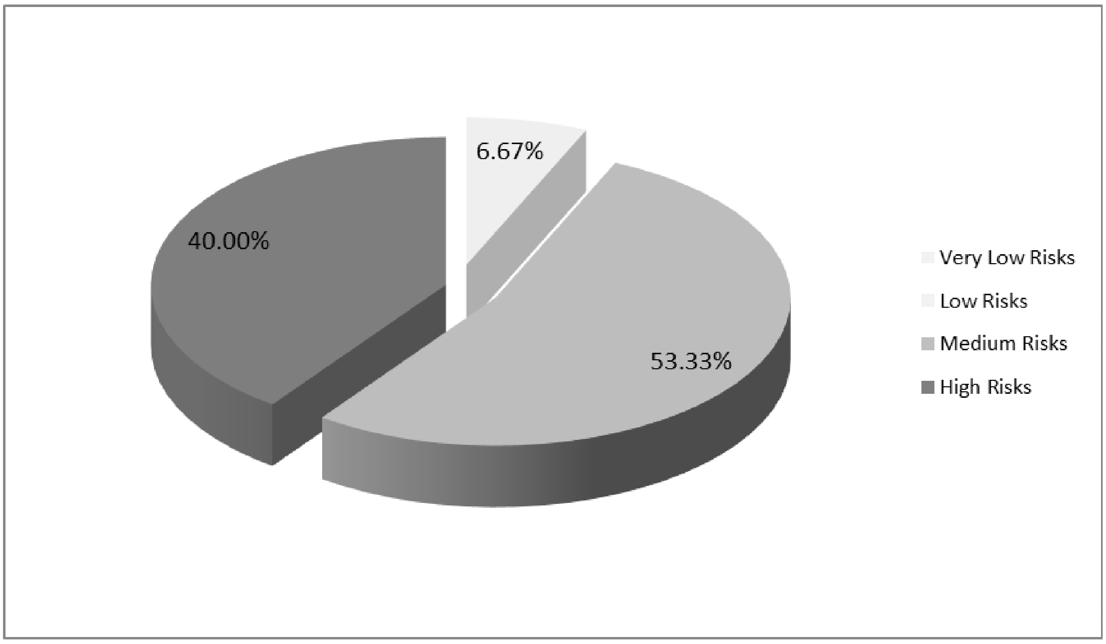
6.1.5 During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	**Type of Assurance**	**Provided by/ Obtained through**
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by: • Performance (scrutiny, customer experience) • Legal (monitoring officer reports, committee reports, legal advice) • Risk (operational, programmes, projects) • Finance (MTFP, Revenue & Capital, Treasury Management)
Third Line	External Assurance	Obtained through: • Quality Assurance & 3rd Parties (e.g. Ofsted,

		CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

6.1.6 All relevant strategic risks have been linked to the Annual Governance Statement Targeted Outcomes. This demonstrates that we are managing these Outcomes at a strategic level and this is shown clearly on each of the strategic risks where there is a link.

6.1.7 The following diagrams demonstrate our overall strategic risk exposure at the end of 2017/2018:-



6.2 Operational Risks

6.2.1 Operational risks are reviewed and reported upon on a quarterly basis. All risks are held within one overarching risk register for each Head of Service area and circulated to risk owners for review and update.

6.2.2 At the end of the review period a detailed report is provided firstly to Heads of Service and then a collated version for Directors. These reports detail all current medium and high risks, the area they relate to and who is responsible for their mitigation. The report also details all changes that have occurred during this reporting period. These have enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers ensuring a more accurate and robust operational risk review.

6.2.3 Following the provision of these reports a final summary report in the form of a dashboard is presented by the Section 151 Officer to Directors.

6.2.4 To support the implementation of any changes to operational risk management, all operational risk owners are invited to facilited risk workshops which brief them on the current operational risk exposure, the strategic risks, the methodology and also highlights emerging themes from the Horizon Scan Report (2018) and the Global Risks Report (2018). The workshops also allow time for the risks to be updated there and then which enables all risk owners to complete the update and have members of the Risk and Insurance Team on hand to support them.

6.3 Business Continuity Management

6.3.1 With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

6.3.2 Previously serious concerns had been raised about the lack of an ICT Disaster Recovery/Business Continuity Management Plan (ICT DR/BC). This year has seen the development of a robust ICT DR/BC plan and detailed supporting arrangements providing assurance that back-up and recovery arrangements are in place and tested.

6.3.3 This piece of work has also resulted in ICT Test Plans being developed for each of the key systems and the testing of these has been entered into a calendar for testing on an annual basis. As we move forward with the implementation of new systems as part of the Digital Transformation Programme, all new systems will have test plans developed and be added to this calendar of testing.

6.3.4 A full live failover will take place in order to ratify the robustness of the ICT DR/BC plan.

6.3.5 To support our business continuity management arrangements, regular testing to ensure the plans are robust is necessary. During the past year we have undertaken two exercises; one a live exercise regarding a terrorist threat and hostage taking within Shirehall and a desktop exercise regarding enforcement by the Shropshire Fire & Rescue Service being served on the Chief Executive for failing to have adequate fire risk assessments in place resulting in the closure of three floors at Shirehall.

6.3.6 Following all exercises a Post Exercise Report & Action Plan is produced and we continue to develop processes and undertakings to meet the requirements identified within these.

6.3.7 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We therefore facilitate sessions called ‘Your Business Matters’ with local businesses sharing best business continuity management practice.

6.3.8 During national Business Continuity Week in May each year, we invite local businesses to take part in a week long live exercise to test the robustness of their arrangements. This is undertaken in conjunction with the Local Resilience Direct live exercise taking place nationally at the same time and facilitated locally by the Risk Management Team. Local businesses express an interest to participate and during the week they are fed the escalating scenario throughout each day. They respond to set questions which are collated during the week and form the basis of a post exercise report and action plan provided by the team. This year the scenario was power outages, first locally then nationally and how organisations would respond to this.

Feedback has been excellent, and we will continue to support local businesses to develop robust business continuity management arrangements in the future.

6.4 Opportunity Risk Management Strategy

6.4.1 During 2017/2018 we have continued to share our strategy nationally. Shropshire Council's Opportunity Risk Management Strategy is considered nationally, through Alarm (Association of Local Authority Risk Managers), to be best practice and is now contained as a link on their website.

6.4.2 Angela Beechey and Jane Cooper continue to be involved in the activities of Alarm, both nationally and regionally, which puts the authority at the forefront of risk and insurance for developing best practice. Angela is currently Chair of the Midlands Steering Committee and Jane is due to become Vice Chair in February 2019.

6.4.3 During this year we have been shortlisted for two national awards and in both cases received the honour of 'highly commended'. The first was at the Public Finance Awards which was for the work we had undertaken for business continuity management and the 'live' cyber-attack exercise we had delivered. The second was at the Alarm Awards for the risk management and assurance methodology adopted for the Digital Transformation Programme.

6.5 Project Risk Management

6.5.1 We continue to be heavily involved and support key projects that are currently underway, or which are due to be commenced.

6.5.2 The majority of key projects commence with a risk workshop to develop a robust risk register. These are reviewed and updated at project board meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales and both risks and direction of travel are reported on at project boards.

6.5.3 As a result of the focus on the Digital Transformation Programme (DTP), members of the Risk and Insurance Team continue to provide overall assurance through the DTP Assurance Board together with colleagues from IT Governance, Information Governance and Audit.

6.6 Audit Team Collaborative Working

6.6.1 We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk-based audit plan meetings on an annual basis with the Head of Internal Audit. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

6.7 Risk Management & Business Continuity Training

6.7.1 We have continued to provide risk management and business continuity training opportunities for all colleagues (and where required schools) as detailed below.

6.7.2 Schools Emergency Response & Business Recovery Exercising

- During 2017/2018 we developed and delivered two cyber-attack desktop exercises with schools. These were extremely well received and tested the schools planning assumptions.

6.7.3 Operational Risk Management Training

- During 2017/2018 we facilitated four operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. This also enabled us to introduce any changes to the risk management process. In total 55 delegates attended these training sessions which is 68% of risk leads. The sessions enabled delegates to undertake their quarterly review with support from the Risk and Insurance Team on hand to answer queries or provide advice.

6.7.4 Risk & Insurance Training for Schools

- This training continues to be offered to all maintained schools on an annual basis. In total 92% of schools have attended this training since we commenced it and at the last facilitated session 19 delegates representing 13 schools attended. These sessions will continue to be offered annually as they provide updated and relevant information in relation to changes in legislation and best practice and also supports schools who have new staff.

6.7.5 Loggist training

- Loggist training was developed as a result of actions in the post exercise reports and action plans produced following Business Continuity exercises (as mentioned above). We have continued to provide loggist refresher training to ensure that they are well equipped to support future responses to real incidents or exercises.

6.7.6 Service Recovery Plan (SRP) training

- This year we incorporated the ICT System Test Plan developments into the Service Recovery Plan annual review. These test plans set out the critical operating requirements in order for the system to support service delivery and service continuity arrangements. We introduced the methodology to new service managers which acted as an aide memoire to existing service managers. In total eight sessions took place with 55 delegates attending which represents 66% required attendance. As with all our facilitated review training we provided sufficient time with support on hand from both ourselves and ICT for the SRP's and Test Plans to be developed as part of the session.

6.7.7 We will continue to provide scheduled training opportunities and work with colleagues to develop bespoke training packages where required.

6.8 <u>External Work</u>

6.8.1 During the year we have worked to develop commercial relationships with external colleagues and organisations. This has enabled income generating opportunities with the following organisations:-

- STaR Housing - Live Exercise to test their planning arrangements together with a Post Exercise Report & Action Plan;
- STaR Housing – Development of a full Business Continuity Plan.

6.8.2 We will continue to engage in discussions with organisations in scoping further income generating opportunities.

6.9 Benchmarking

6.9.1 We undertook the CIPFA Risk Management Benchmarking exercise during the last year. This breaks down activity into seven strands within two categories:

- Enablers:
    - Leadership and Management;
    - Policy and Strategy;
    - People;
    - Partnerships and Shared Resources;
    - Processes;
- Results
    - Risk Handling and Assurance;
    - Outcomes and Delivery.

6.9.2 These strands are broken down into maturity levels; Awareness, Happening, Working, Embedded & Integrated and Driving. The following table demonstrates how mature we are under each category:

6.9.3

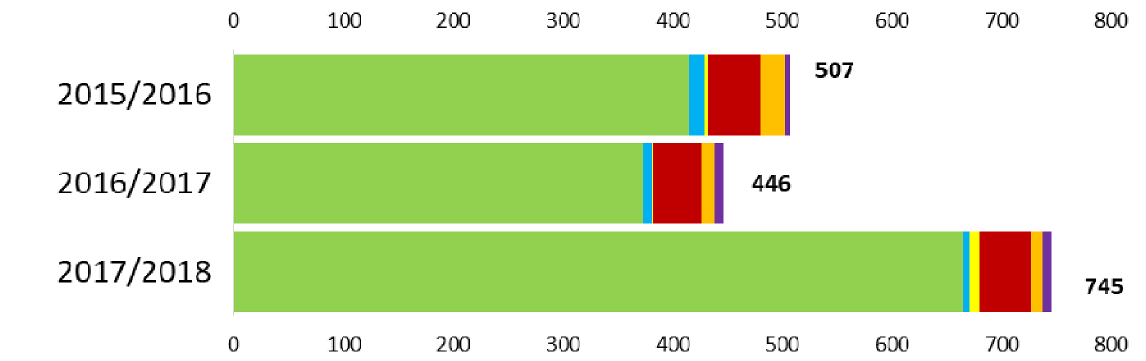
Strand	Maturity Level
Leadership & Management	Driving
Policy & Strategy	Embedded & Integrated
People	Driving
Partnerships & Shared Resources	Embedded & Integrated
Processes	Driving
Risk Handling & Assurance	Driving
Outcomes & Delivery	Driving

6.9.4 In comparison with the other authorities participating we were second overall under 'Enablers' and top in relation to 'Results'.

7. Additional Information – Insurance

7.0.1 During the 2017/2018 policy year we received 745 claims against the Authority, an increase of 67% compared to the previous year. The significant increase is mainly due to an increased number of pothole claims being received following a prolonged cold and severe winter.

Illustration 1 - Comparison of claims received year on year



	2017/2018	2016/2017	2015/2016
Public Liability	665	373	414
Employer's Liability	6	8	14
Other Liability	10	2	5
Motor Vehicle	45	43	48
Property Damage	11	12	22
Own Policies	8	8	4
Total	745	446	507

7.0.2 Of the 745 claims received in 2017/2018 it should be noted that not all relate to incidents occurring within the 2017/2018 policy year. Illustration 2 below summaries the years in which incidents occurred compared to when the claim was received. During 2017/2018 55 claims (7%) related to earlier policy years. These 55 claims representing 41% of the total value of all claims received in the year.

Illustration 2 – Claims received by incident date

	2017/2018		2016/2017		2015/2016	
Incident Yr	**No.**	**Value (£)**	**No.**	**Value (£)**	**No.**	**Value (£)**
1960's	2	27,375.00	2	10,980.00	3	289,602.00
1970's	1	2,288.00	4	160,406.00	7	229,333.00
1980's	0	-	4	316,661.50	1	10,000.00
2005/2006	0	-	0	-	1	6,000.00
2008/2009	2	110,000.00	0	-	0	-
2009/2010	1	25,000.00	0	-	0	-
2010/2011	1	75,000.00	0	-	1	2,220.00
2011/2012	0	-	0	-	2	7,500.00
2013/2014	1	150,000.00	3	22,831.00	5	50,319.79
2014/2015	2	17,000.00	2	11,111.00	37	268,575.11
2015/2016	2	65,467.00	42	456,611.06	450	1,515,752.51
2016/2017	43	145,174.83	389	1,227,724.40		
2017/2018	690	882,477.80				
Total	**745**	**1,499,782.63**	**446**	**2,206,324.96**	**507**	**2,379,302.41**

7.0.3 When a letter of claim is received, a Claim Form will be issued to gather additional facts to in order that the claim to be registered and allow a thorough consideration of the allegations. Of the 745 claims against the 2017/18 policy year, 321 had a 'Pending' status at the time of data collection, meaning the Claimant was yet to return their completed Claim Form to allow the claim to be registered.

7.0.4 Illustration 3 below summarises the claims received by their Class of Business and also by the current status of the claim. The claims are split into Liability and non-liability claims and will be looked at in more detail in the next section of this report.

Illustration 3 – Claims received in 2017/2018 by current status

		Pending claims		Under Investigation		Accepted claims		Repudiated		
2017/18	**Total No.**	**No.**	**Reserve(£)**	**No.**	**Reserve(£)**	**No.**	**Value (£)**	**No.**	**Savings (£)**	**Defence (£)**
Public Liability	665	314	108,428.00	161	572,092.00	12	22,416	178	534,276	275
Employer's Liability	6	0	-	3	49,203.00	0	0	3	38,010	0
Other Liability	10	2	7,860.00	4	43,037.00	1	66	3	18,221	0
Liability Sub-total:	*681*	*316*	*116,288.00*	*168*	*664,332.00*	*13*	*22,482*	*184*	*590,507*	*275*
Motor Vehicle	45	0	-	15	18,076.00	28	31,672	2	3,249	0
Property Damage	11	5	5,954.52	6	43,500.00	0	0	0	0	0
Own Policies	8	0	-	0	-	8	3,448	0	0	0
Overall Total:	**745**	**321**	**122,242.52**	**189**	**725,908.00**	**49**	**57,601**	**186**	**593,756**	**275**

Total Paid (£):	**57,876**
Reserves (£)	848,151
'Savings' (£):	593,756
Potential Cost (£):	1,499,783

7.1 Liability Claims

7.1.1 Liability claims represent 681 of all claims received in 2017/2018. A liability claim means an allegation of negligence is being made against the Council.

7.1.2 Following investigations a liability decision has been reached on 197 of these claims, with 184 (93.4%) of them being repudiated (i.e. turned down).

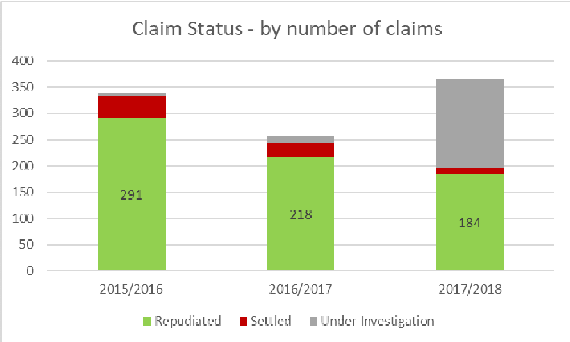
7.1.3 The diligent work carried out by Shropshire Council staff is again shown by the cost we could have incurred if repudiated claims had been paid. Based on the present position, in 2017/2018 costs of £590.5k would have been paid against defended Liability claims. Over the last three years costs would have amounted to over £3m.

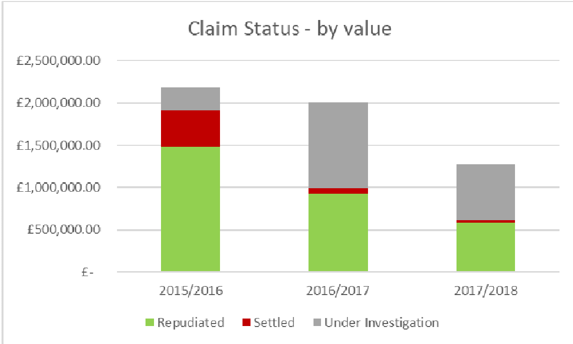
7.1.4 13 of the liability claims received have been accepted, with a combined expected cost once fully settled of £22.5k.

7.1.5 There are currently 168 claims that are under investigation, meaning a liability decision has not yet been reached. Reserves of over £664k are attached to these claims, however it should be noted that it is highly likely that the majority of these claims will also be repudiated and further savings will be achieved. Included within these figures are five high value claims (over £45k) which have a combined value of £405k.

7.1.6 Illustration 4 below highlights the split of claims that are repudiated against those settled – whilst the Authority has little control over the number of claims that are made, this shows that we are able to defend (ie repudiate) the majority of claims successfully.

Illustration 4 - Comparison of those Liability claims accepted and those defended

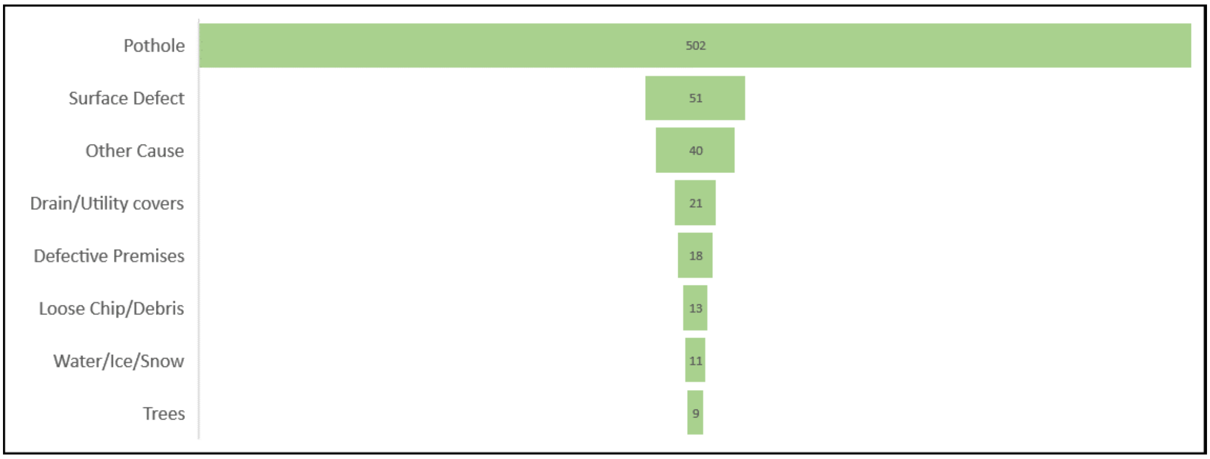




7.2 Public Liability claims

7.2.1 Of the 665 Public Liability claims received during 2017/2018, at 92% the majority of claims have arisen through Highways Maintenance incidents. As can be seen in illustration 5 below, 502 of these claims are Pothole related – a significant increase from the 175 in 2016/17 and 249 in 2015/16.
Whilst the number of claims received is high in 2017/18, the current repudiation rate remains high at 93.7% - well above the industry average of 82%.

Illustration 5 – Public Liability claims by Cause



7.2.2 Of the 502 Pothole claims received during 2017/2018, a liability decision has been reached on 114 of these claims, of which 106 have been repudiated and we expect to achieve savings of approximately £159.2k. The main reason that we are able to successfully defend pothole claims is because there is a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice). Due to the extreme weather conditions, it was recognised early by Highways Managers that the usual inspection and repair regime would not be possible and a Temporary Winter Maintenance Policy was introduced. This allowed resources to be focused on key routes where the greatest risk was identified.

7.2.3 Liability has been accepted against seven of the Pothole claims received during 2017/2018, at an expected cost of £14.6k.

7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with six claims being received during 2017/2018. In 2016/2017 we received eight claims, and 14 in 2015/2016.

7.3.2 Of the six claims received in 2017/2018 three of them relate to incidents that occurred in that policy year, and the other three relate to noise disease claims for former employees in the 1960's and 70's. Liability has not been accepted against any of these claims.

7.3.3 The incidents occurring in 2017/2018 relate to an injury from moving a table, a trip on a cable and a trip in a divot. Liability has not been accepted against any of these claims.

7.4 Other Liability claims

7.4.1 We have received eight Official Indemnity claims during 2017/2018 with combined reserves of £51k. Official Indemnity claims are where a claimant has suffered a purely financial loss as opposed to damage or injury. Liability has been denied against four of the claims and investigations remain on-going in three cases. Liability has been accepted in just one case at a cost of £66 - relating to the cost of posting birth certificates to the wrong address.

7.4.2 Two Land Charges claims were also received during 2017/18 as a result of incorrect information being supplied on Searches. The combined reserves are £18.2k. Both claims are under investigation.

7.5 Motor claims

7.5.1 During 2017/2018 we received a total of 45 motor claims, which remains in line with the 43 received in 2016/2017 and 48 in 2015/2016.

7.5.2 Of these claims received, 25 involve our own vehicle only (no Third Party involvement), making up 55.5% of all motor claims received in 2017/2018.

7.5.3 Of the 20 claims involving a Third Party, we have accepted fault in 11 cases - these claims total £20.2k. The highest value paid claim being for £3k and relating to damage to a Third Party vehicle caused by our driver reversing into it. Seven cases remain under investigation and two have been defended, saving the Authority £3.2k.

7.5.4 The main reasons for motor claims during 2017/2018 are incidents relating to our driving hitting a Third Party vehicle (seven cases) or a misjudgement / manoeuvring incident (seven cases). Fortunately the damage has been minimal and the average value of these claims is £1.3k per claim.

7.6 Property claims

7.6.1 During 2017/2018 we received 11 Property claims, a slight reduction on the 12 in 2016/2017 and half of the 22 received in 2015/2016 when we suffered a much wetter winter. The total value attached to the 11 claims being £49.5k.

7.6.2 There was no trend to the 11 claims received, with a small number of Malicious Damage, Burst pipe, Impact, Storm and Fire related claims.

7.6.3 At £25k, the highest value claim was for Storm damage following a roof of a school being blown off in high winds.

7.6.4 In total six school property claims were received totalling £31.5k, one general property claim totalling £2.5k, and two housing related claims valued at £12.5k relating to Impact damage caused during a police chase.

7.7 Current exposure

7.7.1 We currently have 418 open claims with reserves of £4.7m attached. As has been mentioned in this report, claims received in any given policy year often include claims for incidents that took place many years ago. Historically these would usually relate to Employers Liability disease claims such as exposure to noise and vibration. In recent years we have also started to see an increase in the number of Abuse cases which are classified as Public Liability claims.

Illustration 6 – Open Liability claims by policy year

	Public Liability		Employer's Liability		Other claims*	
Year	No.	Value (£)	No.	Value (£)	No.	Value (£)
1961/1962	0	-	1	10,000	0	-
1962/1963	0	-	1	980	0	-
1965/1966	0	-	1	25,500	0	-
1967/1968	0	-	1	1,875	0	-
1969/1970	0	-	1	5,440	0	-
1973/1974	0	-	1	13,000	0	-
1974/1975	1	95,000	1	16,253	0	-
1975/1976	0	-	1	1,008	0	-
1976/1977	0	-	1	6,885	0	-
1977/1978	1	52,000	1	2,288	0	-
1978/1979	1	85,000	0	-	0	-
1979/1980	1	55,552	2	6,522	0	-
1981/1982	1	31,146	0	-	0	-
1982/1983	0	-	1	39,516	0	-
1985/1986	0	-	1	10,000	0	-
1988/1989	2	246,000	0	-	0	-
2006/2007	1	-	0	-	0	-
2007/2008	1	20,000	0	-	0	-
2008/2009	3	187,811	0	-	0	-
2009/2010	1	25,000	0	-	0	-
2010/2011	1	75,000	0	-	0	-
2011/2012	1	46,500	0	-	0	-
2012/2013	1	37,501	2	165,200	0	-
2013/2014	2	731,533	0	-	0	-
2014/2015	7	239,276	1	12,650	1	2,000
2015/2016	18	903,973	1	158,696	2	7,685
2016/2017	39	632,237	1	14,020	11	51,289
2017/2018	269	492,506	2	50,920	32	120,445
Total	**351**	**3,956,035**	**21**	**540,753**	**46**	**181,419**

Other claims being Property, Motor, Other Liability and Own Policies

7.7.2 We currently have open 21 Employers Liability claims, of which 14 are disease related claims with reserves of £139.3k. 12 of the disease claims are for noise related injuries and two for vibration white finger. Liability has not been accepted against any of these disease claims.

7.7.3 The majority of open claims are of a low value with 56% (236 claims) being valued at less than £1k. This is because the majority of claims we received relate to vehicle damage caused by the highway conditions. A further 35% (148 claims) are valued between £1k and £25k. Whilst 56% of the number of claims are valued under £1k, the combined value of these claims (£63k) represents just 1% of the overall reserve of £4.7m.

7.7.4 We have eight claims that are valued above £100k – the combined reserves of these claims being £2.1m. Liability is denied against one of the claims, with a reserve of £670.2k. The claim relates to an incident involving injuries sustained following a vehicle hitting a pothole. Two claims have been accepted, with estimated payments of £693.5k. This includes one claim valued at £581.5k following a vehicle aquaplaning due to flood water causing the driver suffering personal injuries. The other five high value claims are currently under investigation.

7.7.5 Of the 418 claims open, just over 41% have been repudiated (172 claims) and as such the £1.6m reserved against these claims is not likely to be paid. However there is the possibility of a challenge to these decisions which could result in legal action (and increased costs in some areas). 219 claims remain under investigation at present and 27 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £0.9m.

Illustration 5 – Open claims by detailed status

Status	Number		Value
Accepted	27	£	906,327
Repudiated	172	£	1,638,637
Under Investigation	219	£	2,133,244
Total	**418**	**£**	**4,678,207**

7.7.6 During 2017/2018 a total of three cases went to Court and it is pleasing to note that we successfully defended all three cases, saving the Authority over £54k.

7.8 Municipal Mutual Insurance (MMI) Clawback

7.8.1 In previous years we reported that as MMI were no longer able to foresee a solvent run off, the Scheme of Arrangement was implemented and a levy was applied to creditors in early 2014 resulting in a payment by Shropshire Council of £834,000.

7.8.2 Following the publication of the accounts in 2015 it was confirmed that a levy of a further 10% would be applied to creditors. This resulted in a second payment by Shropshire Council of £444,303 in 2016.

7.8.3 There is the possibility that MMI will still be unable to reach a solvent runoff despite the 25% levy already applied, in which case a further levy increase may be made. Within the industry the advice is that Scheme Creditors should be reserving for a final levy of between 50% to 100% of payments made.

7.8.4 As the MMI years relate to the old Shropshire County Council days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.

7.8.5 In addition to the payments detailed above, there is an ongoing 25% contribution to all claim payments that has to be made by Old Shropshire on an ongoing basis.

7.10 Other Policies

7.10.1 With the move to commissioning and new ways of working the insurance policy has been extended to include the name of STAR Housing. Therefore this company is covered under the same policy and conditions as Shropshire Council.

7.10.2 The Insurance Team supports and advises the above company in the same way it supports Shropshire Council.

7.11 Reporting

7.11.1 The insurance team have access to detailed management information regarding the number of claims received, the cause and the cost and can report on trends happening within any service area. To this end we provide regular reporting to key service areas such as highways, property services, and transport operations group which informs their decision making. We also work closely with services to manage their risks and to ensure that incidents do not happen again which have given rise to a claim.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Annual Governance Statement Risk Management Audit Report, Insurance Audit Report Opportunity Risk Management Strategy Business Continuity Management Policy Business Continuity Plan Insurance Annual Report
Cabinet Member
David Minnery, Portfolio Holder Finance, Governance & Assurance
Local Member
N/A
Appendices

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Committee and Date Audit Committee – 13th September 2018	Item	Paper

STRATEGIC RISK REPORT SEPTEMBER 2018

Responsible Officer Angela Beechey
e-mail: Angela.beechey@shropshire.gov.uk Tel: (01743) 252073 Fax (01743) 252858

1. Summary

1.1 This report sets out the current strategic risk exposure following completion of a strategic risk workshop with Directors and the July 2018 quarterly review.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Current Strategic Risk Exposure

3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.

3.2 Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.

3.3 The review was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.

3.4 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.

3.5 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year.

3.6 As at the July 2018 review there were 16 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed as follows:-

Risk	Risk Owner	L	I	Status
Sustainable Budget	James Walton	3	5	15
Staffing	Michele Leith	5	4	20
Work Related Stress	Michele Leith	5	4	20
Future Funding Levels	James Walton	3	5	15
Failure to Safeguard Vulnerable Adults	Andy Begley	2	3	6
Digital Transformation Programme	Michele Leith	3	5	15
Contract Management	James Walton	2	3	6
Failure to Safeguard Vulnerable Children	Karen Bradshaw	3	4	12
Commercial Strategy	Tim Smith	4	5	20
Economic Growth Strategy	Gemma Davies	2	3	6
Governance	Claire Porter	3	2	6
Health & Social Care	Andy Begley	5	2	10
ICT Provision	Michele Leith	3	3	9
Strategic Vision and Strategy	Clive Wright	3	4	12
Reputation	Michele Leith	5	4	20
Economic Impact of Brexit	Clive Wright	4	3	12

High Risks
Medium Risks
Low Risks

3.7 This review saw changes to the scoring of six of the risks as follows –

3.7.1 **Failure to safeguard vulnerable children** - Score increased due to the increased demand and complexity of children coming into the system and stretched qualified resources. Inability to recruit qualified and experienced social workers is also a problem. Increased from a 2x4=8 to a 3x4=12 – remaining as a medium risk**.**

3.7.2 **Strategic vision and strategy for the Council**– Score increased in recognition of the work to be done on strategic vision in line with actions from the recent Peer Review. Increased from 2x4=8 to 3x4=12 – remaining as a medium risk**.**

3.7.3 **Reputation** – The score was changed to reflect the reputational impact around current high profile areas. Increased from 4x4=16 to 5x4=20 – moving to a high risk.

3.7.4 **Failure to safeguard vulnerable adults** - The score was reduced as a result of the work which has been undertaken to reduce the risk in relation to DoLs and resources are being managed proactively. Reduced from a 3x3=9 to a 2x3=6 which is a low risk.

3.7.5 **Contract management** - The score was reduced as it was felt by Directors that contracts are now being managed more effectively within the Council. Reduced from a 3x4=12 to a 2x3=6 which reduces this to a low risk.

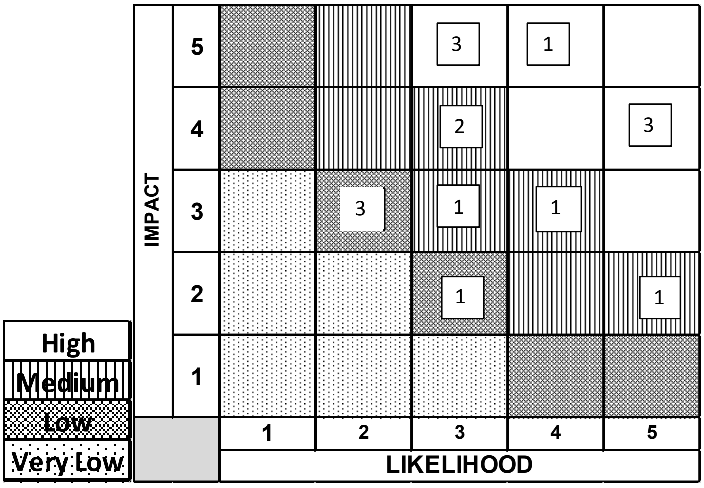
3.7.6 **Health & Social Care** - The score was reduced by Directors as it was felt that whilst the council is able to manage the impact of the risk, the likelihood, which is occuring, was beyond the control of the council. Reduced from a 3x4=12 to a 5x2=10. The likelihood was changed to a 5 to reflect the fact the risk is occurring. The risk remains a medium risk.

3.8 Following a workshop which was undertaken with the Directors to review the strategic risks as a whole, it was agreed that the Enterprising Council risk should be replaced by the following two risks which represent the risks more clearly -

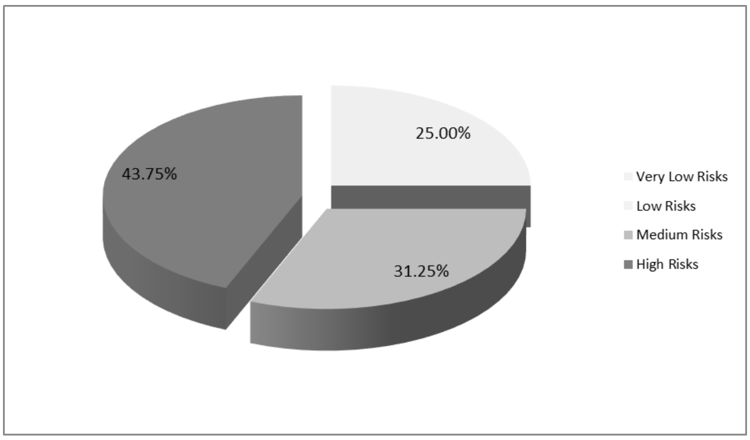
- Failure to deliver Economic Growth Strategy prevents the Council from meeting the corporate outcomes – owner Gemma Davies
- Failure to deliver the Commercial Strategy prevents the Council from meeting the corporate outcomes – owner Tim Smith

3.8.1 The new risks were scored with the Commercial strategy being scored a high risk and the Economic Growth strategy being scored a low risk. Detailed risk profiles are being drawn up with the new risk owners.

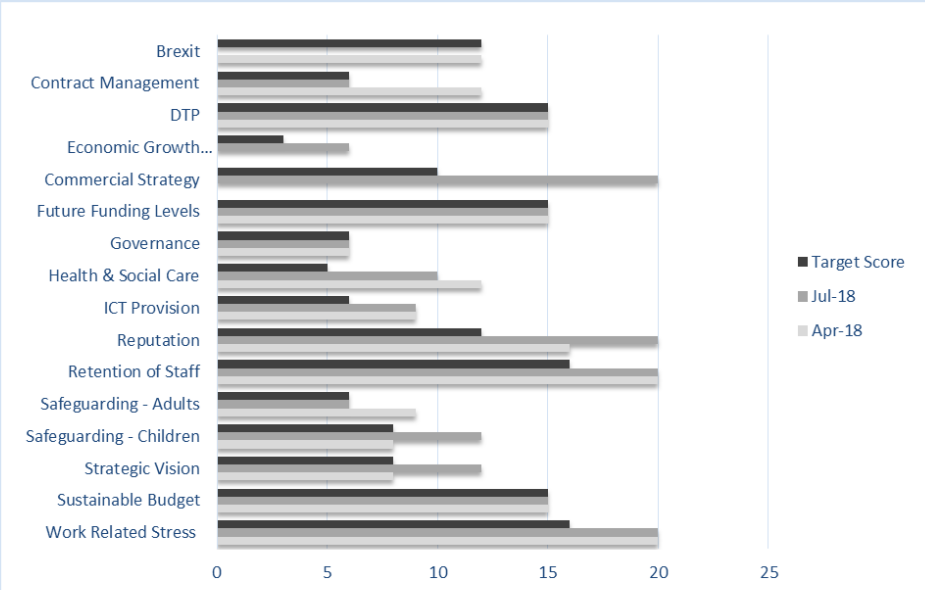
3.9 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-



3.9 Our overall current risk exposure following the latest review is demonstrated as follows:-



3.10 As mentioned above the risk profile and action plans detail the target scores that have been allocated to the strategic risks to be achieved by the end of the financial year. These target scores were reviewed at the Director's workshop and are detailed below:



4. Assurance

4.1 We continue to undertake an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	**Type of Assurance**	**Provided by/ Obtained through**
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- • Performance (scrutiny, customer experience) • Legal (monitoring officer reports, committee reports, legal advice) • Finance (MTFP, Revenue & Capital, Treasury Mgt) • Risk (operational, project, programme)
Third Line	External Assurance	Obtained through:- • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

4.2 Each area provides an independent opinion as to the level of assurance they can give based on their knowledge and involvement, the assurances being as follows:

- Unsatisfactory
- Limited
- Reasonable
- Good

The strategic risk owner then gives their overall assurance opinion and this can be challenged by Directors and Informal Cabinet where appropriate.

5. Monitoring

5.1 Behind all of the strategic risks are Risk Profiles and Action plans which elaborate in greater detail the risk and the current controls and outstanding actions which are in place and are monitored. Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Annual Governance Statement Opportunity Risk Management Strategy
Cabinet Member
David Minnery, Portfolio Holder Resources & Support
Local Member
N/A
Appendices

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Shropshire Council

Committee and Date	Item
Audit Committee 13 September 2018 Cabinet 17 September 2018 Council 20 September 2018	Public

ANNUAL TREASURY REPORT 2017/18

Responsible Officer James Walton
e-mail: James.Walton@shropshire.gov.uk Tel: (01743) 258915

1. Summary

1.1. The report informs members of treasury activities for Shropshire Council for 2017/18, including the investment performance of the internal treasury team to 31 March 2018. The internal treasury team outperformed their investment benchmark by 0.24% in 2017/18 and performance for the last three years is 0.28% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.

1.2. During 2017/18 the performance of the Treasury Team delivered an under spend of £1.557 million compared to budget as highlighted in paragraph 10.4 of this report. This underspend helped the Council to achieve an overall underspend at the end of the financial year.

2. Recommendations

2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

3.3. 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. Financial Implications

4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both 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.

4.2. The 2017/18 performance is above benchmark for the reasons outlined in paragraph 10.4 of this report and has delivered additional income of £1.557 million which has been reflected in the final Revenue Monitor report for 2017/18.

5. Background

5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its 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".

5.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:

- An annual treasury strategy in advance of the year.
- A mid-year treasury update report.
- An annual report following the year describing the activity compared to the strategy.

5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval.

5.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.

5.6. The Treasury Strategy for 2017/18 was approved by Council in February 2017, the mid-year treasury update report was approved by Council in December 2017. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

6. Borrowing Strategy for 2017/18

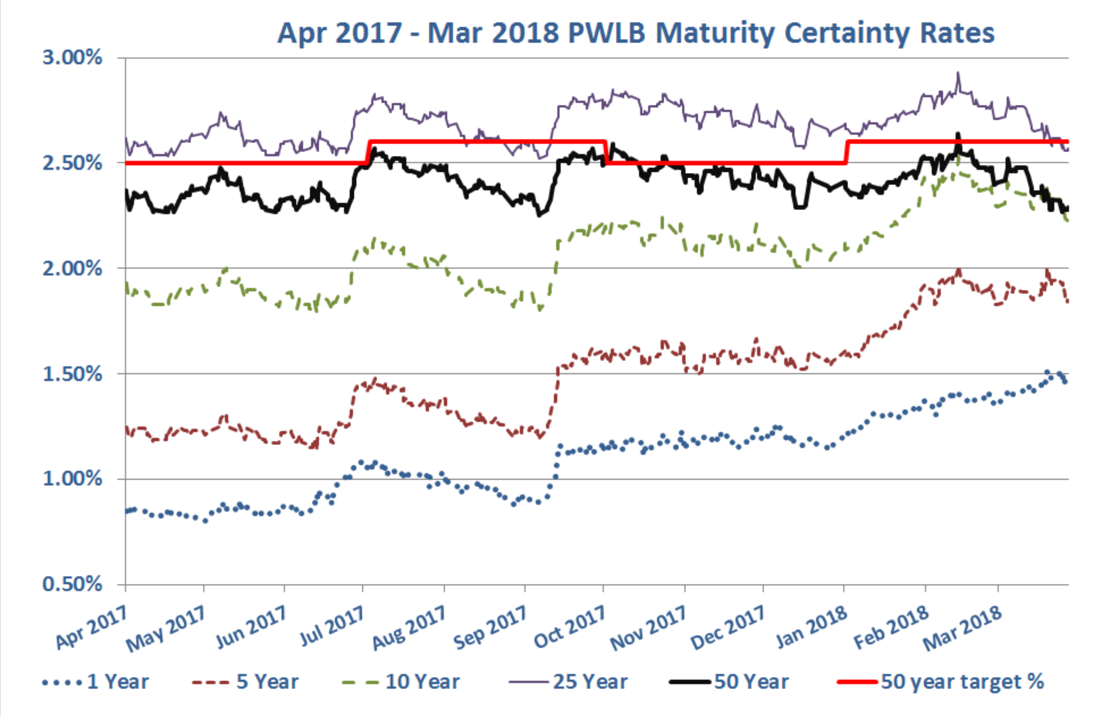
6.1. The Council's only borrowing requirement identified within the Capital Programme 2017/18 to 2019/20 was self-financing prudential borrowing of £300,000 therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

6.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

6.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Short term money market borrowing was not used during the year.

7. Borrowing outturn for 2017/18

7.1. The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2017/18 are shown in the graph below.



7.2. Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. This resulted in an increase in all new borrowing rates of between 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

7.3. The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	**0.85%**	**1.25%**	**1.93%**	**2.62%**	**2.37%**
31/3/18	**1.47%**	**1.85%**	**2.23%**	**2.57%**	**2.29%**
Low	**0.80%**	**1.14%**	**1.78%**	**2.52%**	**2.25%**
Date	**03/05/2017**	**15/06/2017**	**15/06/2017**	**08/09/2017**	**08/09/2017**
High	**1.51%**	**2.01%**	**2.53%**	**2.93%**	**2.64%**
Date	**21/03/2018**	**15/02/2018**	**15/02/2018**	**15/02/2018**	**15/02/2018**
Average	**1.11%**	**1.50%**	**2.08%**	**2.69%**	**2.41%**

7.4. Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2017/18.

7.5. The Council's total debt portfolio at 31 March 2018 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2017/2018
General Fund Fixed rate – PWLB	185.42	5.27%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

7.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 20 years, market loans have an average debt period of 52 years. The total debt portfolio has a maturity range from 1 year to 60 years.

7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

8. Debt rescheduling

8.1. No debt restructuring was undertaken during 2017/18. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.
- To help fulfil the Treasury Strategy.
- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

9. Investment Strategy for 2017/18

9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2017 that the bank rate would remain at its historically low level of 0.25% until June 2019 when a rise to 0.50% was expected. During the year their interest rate forecast was reviewed and their updated forecast was approved by Council in December 2017 as part of the mid-year report. Their revised forecast took account of the increase in the bank rate to 0.50% in November 2017 and they expected it to remain at this level until December 2018 before increasing again to 0.75%.

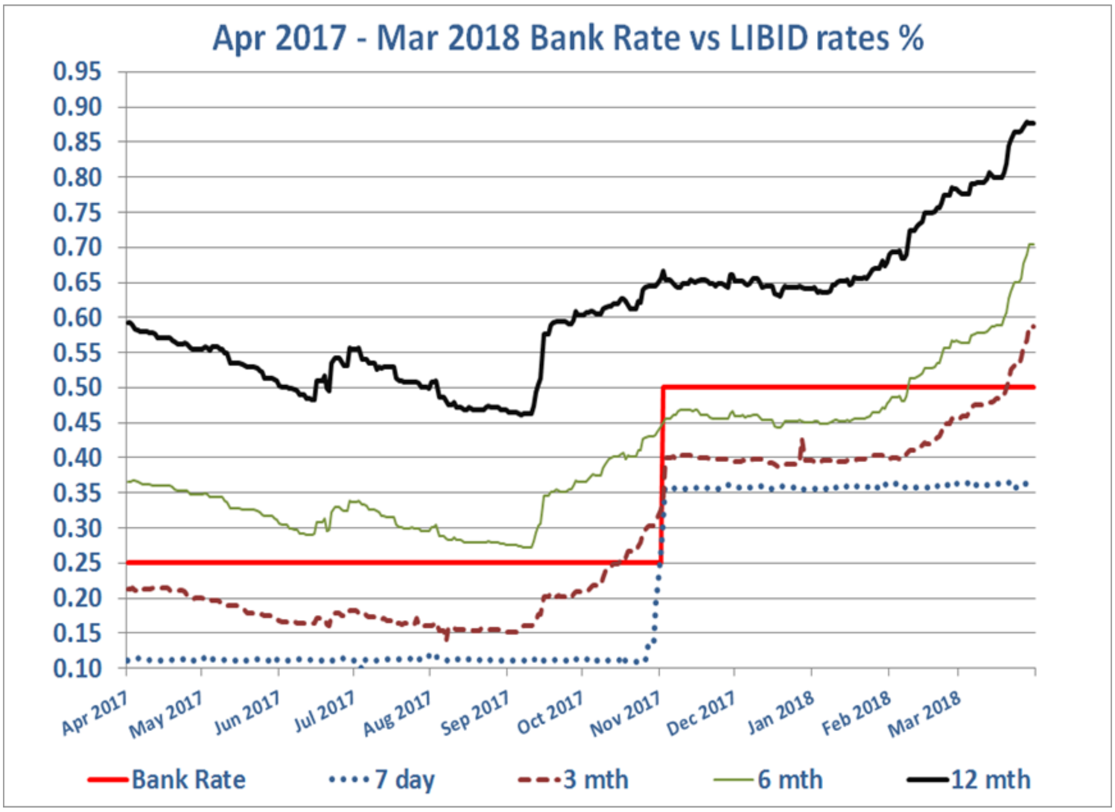
9.2. In 2017/18 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

10. Investment outturn 2017/18

10.1 Bank Rate was increased from 0.25% to 0.50% in November 2017 and remained at that level for the rest of the year. Deposit rates continued into the start of the year at previous depressed levels but were on a gently rising trend in the second half of the financial year after the Monetary Policy Committee's decision in November to increase Bank Rate.

10.2 To counter the low investment rates and following advice from Link, use was made of direct deals with main UK banks, for various periods from three months to one year. Direct deals offered enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Enhanced market rates when compared to bank rate has resulted in the total portfolio outperforming the benchmark. Use of instant access accounts with HSBC and Svenska Handelsbanken was continued, together with use of Money Market Funds with Standard Life & Insight Investment. These accounts offered both instant access to funds and paid a rate which was higher than placing short term deposits through brokers.

10.3 Movements in short term rates through the year are shown in the below.



10.4 Throughout the year the average interest rate earned on investments was higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an under-spend on debt charges due to no long term general fund borrowing being undertaken in 2017/18. The total £1.557 million underspend helped the Council to achieve an overall under spend at the end of the financial year.

10.5 At 31 March 2018 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	71.9
• In-house long dated deposits (up to 1 year)	5.0
• Other Local Authorities	15.0
Total	**91.9**

10.6 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2018. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2017/18	Return 3 years to 31 March 2018
	%	% p.a.
Internal Treasury Team	0.46	0.54
Benchmark (7 Day LIBID rate)	0.22	0.26

10.7 The conclusions to be drawn from the table are:

- During 2017/18 the internal treasury team outperformed their benchmark by 0.24%.

- Over the 3 year period the internal team's performance has been 0.28% per annum above the benchmark.

11. Compliance with Treasury Limits and Prudential Indicators

11.1 All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council's Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which investments were made, showed any difficulty in repaying investments and interest in full during the year.

11.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2017/18 and 2018/19 (revised estimate) Treasury Strategies compared with the actual figures for 2017/18. In summary, during 2017/18 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Council, February 2017, Treasury Strategy 2017/18.
Council, December 2017, Treasury Strategy 2017/18 Mid-Year Review.
Council, February 2018, Treasury Strategy 2018/19.
Cabinet, July 2017, Treasury Management Update Quarter 1 2017/18.
Cabinet, December 2017, Treasury Management Update Quarter 2 2017/18.
Cabinet, February 2018, Treasury Management Update Quarter 3 2017/18.
Cabinet, July 2018, Treasury Management Update Quarter 4 2017/18.

Cabinet Member:
David Minnery, Portfolio Holder for Finance

Local Member
N/A

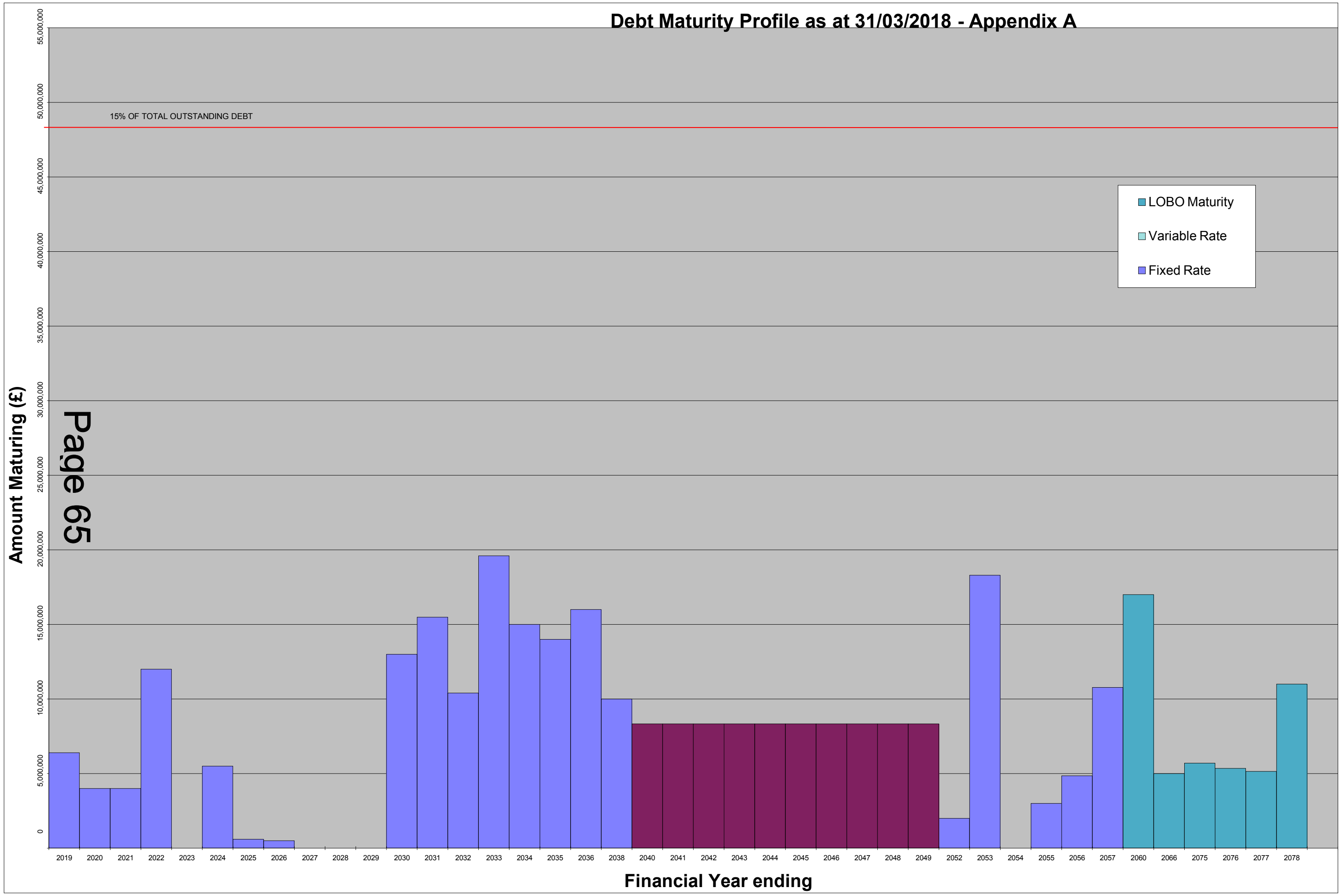
Appendices
A. Debt Maturity Profile as at 31 March 2018
B. Prudential Indicators 2017/18

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Fixed Rate	6,400,000	4,000,000	4,000,000	12,000,000	0	5,500,000	600,000	500,000	0	0
Fixed Rate (HRA										
Variable Rate										
LOBO Maturity										

	2029	2030	2031	2032	2033	2034	2035	2036	2038
Fixed Rate	0	13,000,000	15,487,000	10,400,000	19,600,000	15,000,000	14,000,000	16,000,000	10,000,000
Fixed Rate (HRA									
Variable Rate									
LOBO Maturity									

	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Fixed Rate										
Fixed Rate (HRA	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000
Variable Rate										
LOBO Maturity										

	2052	2053	2054	2055	2056	2057	2060	2066	2075	2076	2077	2078
Fixed Rate	2,000,000	18,300,000	0	3,000,000	4,853,693	10,777,000						
Fixed Rate (HRA												
Variable Rate												
LOBO Maturity							17,000,000	5,000,000	5700000	5350000	5150000	11000000



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APPENDIX B

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2017/18

C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.

C2. The ratio of financing costs compared to the net revenue stream of the Council was slightly lower than expected in 2017/18 due to net revenue stream being higher than estimated.

Prudential Indicator	2017/18 Estimate	2017/18 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	9.3	8.7

Prudential Indicator	2017/18 Estimate	2017/18 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	9.0	8.2
HRA Ratio of financing costs to HRA net revenue stream	39.3	38.1

C3. The cost of capital investment decisions funded from a re-direction of existing resources was as expected due to no new borrowing during the year.

Prudential Indicator	2017/18 Estimate	2017/18 Actual
Estimates of impact of Capital Investment decisions in the present capital programme	**£ p**	**£ p**
Cost of capital investment decisions funded from re-direction of existing resources (Council Tax Band D, per annum)	20.00	20.00
Cost of capital investment decisions funded from increase in council tax (Council Tax Band D, per annum)	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0
Total	**20.00**	**20.00**

C4. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2017/18.

Prudential Indicator	**2017/18 Estimate**	**2017/18 Actual**
External Debt	**£ m**	**£ m**
Authorised Limit:		
Borrowing	463	318
Other long term liabilities	102	105
Total	**565**	**423**

Prudential Indicator	**2017/18 Estimate**	**2017/18 Actual**
External Debt	**£ m**	**£ m**
Operational Boundary:		
Borrowing	400	318
Other long term liabilities	102	105
Total	**502**	**423**

C5. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2017/18. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator.

Prudential Indicator	**2017/18 Revised Estimate**	**2017/18 Actual**
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**
Gross Borrowing (inc. HRA)	318	318
Investments	160	92
Net Borrowing	**158**	**226**
Non HRA Capital Financing Requirement	254	268
HRA Capital Financing Requirement	85	85
Total CFR	**339**	**353**

C6. Non HRA capital expenditure was lower than anticipated during the year, whilst HRA capital expenditure was higher than anticipated. Explanations for these under/overspends were included in the 2017/18 final capital outturn report.

Prudential Indicator	**2017/18 Revised Estimate**	**2017/18 Actual**
	£ m	**£ m**
Non HRA Capital expenditure	60.4	42.8
HRA Capital expenditure	5.6	6.9

C7. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

Prudential Indicator	2017/18 Estimate	2017/18 Actual
Upper Limit For Fixed/Variable Rate Borrowing	**£ m**	**£ m**
Fixed Rate (GF)	463	233
Fixed Rate (HRA)	96	85
Variable Rate	232	0

C8. The level of fixed rate and variable rate investments were within the approved limits during 2017/18.

Prudential Indicator	2017/18 Estimate	2017/18 Actual
Upper Limit For Fixed/Variable Rate Investments	**£ m**	**£ m**
Fixed Rate	220	40
Variable Rate	220	52

C9. Longer term investments were held at the year-end due to the investment in Shrewsbury Shopping Centres.

Prudential Indicator	2017/18 Estimate	2017/18 Actual
Upper Limit For Sums Invested over 364 days	**£m**	**£m**
Internal Team	40	0
External Manager	30	0
Shrewsbury Shopping Centres	60	53

C10. The maturity profile was within the limits set in the Treasury Strategy.

Prudential Indicator	2017/18 Upper Limit	2017/18 Actual
Maturity Structure of External Borrowing	**%**	**%**
Under 12 months	15	2
12 months to 2 years	15	1
2 years to 5 years	45	5
5 years to 10 years	75	2
10 years to 20 years	100	36
20 years to 30 years	100	23
30 years top 40 years	100	15
40 years to 50 years	100	7
50 years and above	100	9

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Committee and Date	Item
Audit Committee 04 September 2018 1:30pm	 Public

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2018/19

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 257739

1. Summary

This report provides members with an update of work undertaken by Internal Audit in the four and a half months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation. Twenty nine percent of the revised plan has been completed (**see Appendix A, Table 1**), which is slightly below previous delivery records. However, the team is on target to achieve 90% delivery by the year end.

Five good, 11 reasonable and five limited assurance opinions have been issued. The 21 final reports contained 200 recommendations, none of which were fundamental.

This report proposes significant revisions reducing the overall audit plan from 2,256 days, as reported in June 2018, to 1,911 days. Changes to the planned activity reflect adjustments in both risks and a significant reduction in available resources. At this stage, the potential impact on the Head of Audit's opinion is minimal but will be a concern if recruitment and training is not successful. The changes have been discussed with, and agreed by, the Section 151 Officer.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

a) The performance to date against the 2018/19 Audit Plan set out in this report and any action it wishes to take in response to any low assurance levels and the residual control environment where a recommendation has been rejected.

b) The adjustments required to the 2018/19 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk assessment and opportunities appraisal

3.1 The delivery of a risk based Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes. In delivering the Plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.

3.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).

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

4. Financial implications

4.1 The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

5.2 The 2018/19 Internal Audit Plan was presented to, and approved by, members at the 1st March 2018 Audit Committee, with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 10th August 2018 and includes minor revisions to the plan.

5.3 Part of the internal audit plan will be delivered by external providers.

Performance against the plan 2018/19

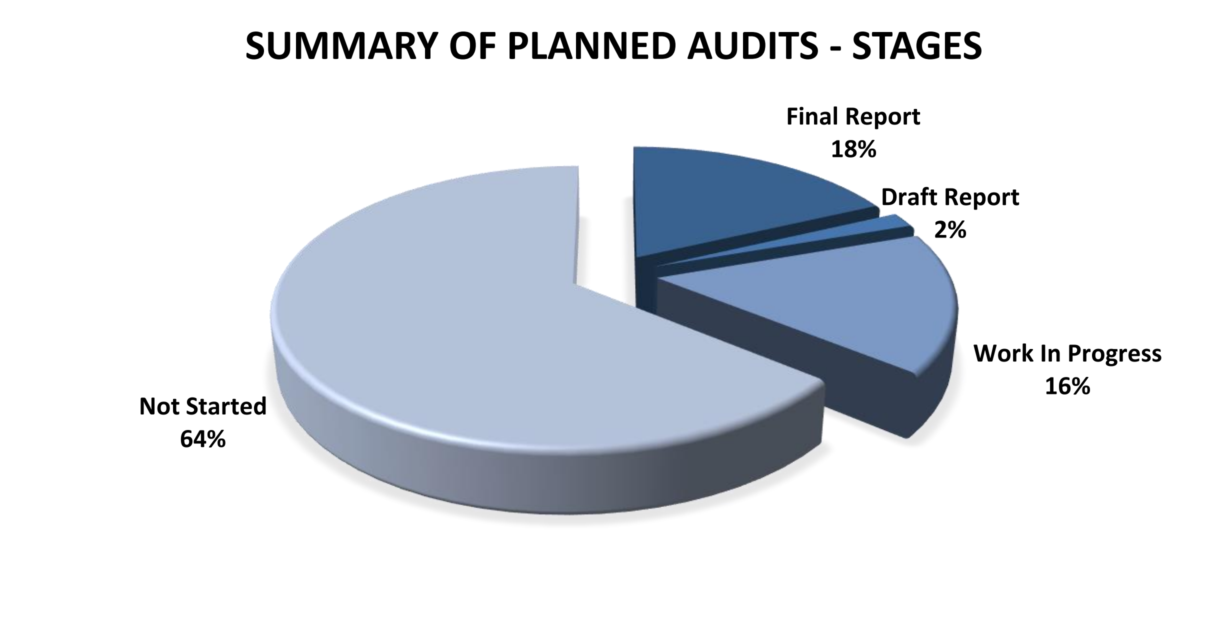
5.4 Revisions to the 2018/19 plan provide for a total of 1,911 days following a significant reduction in resources whilst also reflecting adjustments in risks. Performance to date is marginally lower than previous delivery records at 29% (34% 2017/18), however, overall the team is on track to deliver a minimum of 90% of the annual plan by year end.

5.5 Resourcing problems have been experienced during the first four months of the plan. The Internal Audit contractor delayed starting reviews due to its own resource challenges, assurances have been sought and given that they will deliver to the agreed remaining timeframe. Internal Audit is recruiting to three trainee posts, which is a significant resource investment and aimed at long term sustainability of the service and that of the wider finance function. Trainees will be rotated across Finance, Governance and Assurance to gather a wide range of experience. It is expected that trainees will not be in post until at least November, dependent on their availability. In addition, there remains an Auditor on maternity leave; one who is undertaking professional qualifications; one who has just resigned for a change of career and the retirement of a Principal Auditor. The internal team is therefore 40% down on its resources for the year. It is unknown at this stage if all posts can be recruited to given the current recruitment freeze.

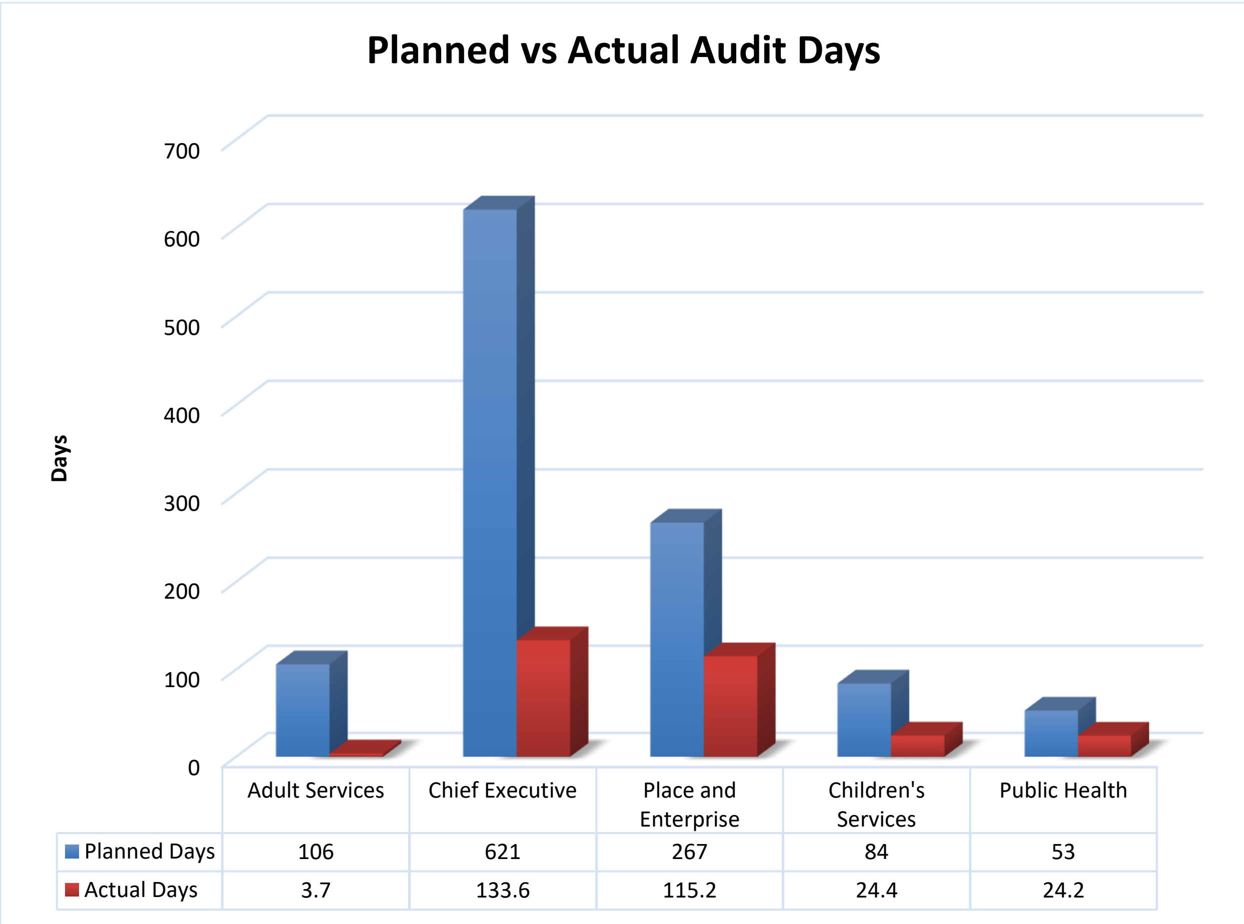
5.6 Changes have been made to the plan as business risks have materialised or become more transparent. An example is the audit of the Enterprise Resource Planning (ERP) system under the Digital Transformation Plan. The initial plan allowed time for two audits; decommissioning of the financial system, SAMIS and review of the build and test phase. Being more informed of the scope of assurance required, this has now been identified as four audits: build, test, migrate and decommission with a greater share of resources allocated. This approach is repeated in the other areas of the DTP to be audited. One of the auditors is new to the role and requires training mirroring a more experienced auditor, this has and will continue to result in a well informed and trained auditor but in the short term requires greater resourcing in each audit area covered.

5.7 Thirty six percent of the fraud contingency has been used, compared to 22% last year, across various reviews which has seen the reallocation of resources from planned work. Many reviews are ongoing.

5.8 In total, 21 final reports have been issued in the period from 1st April 2018 to 12th August 2018. The following chart shows performance against the approved Internal Audit Plan for 2018/19:



5.9 Audits have been completed over a number of service areas as planned:

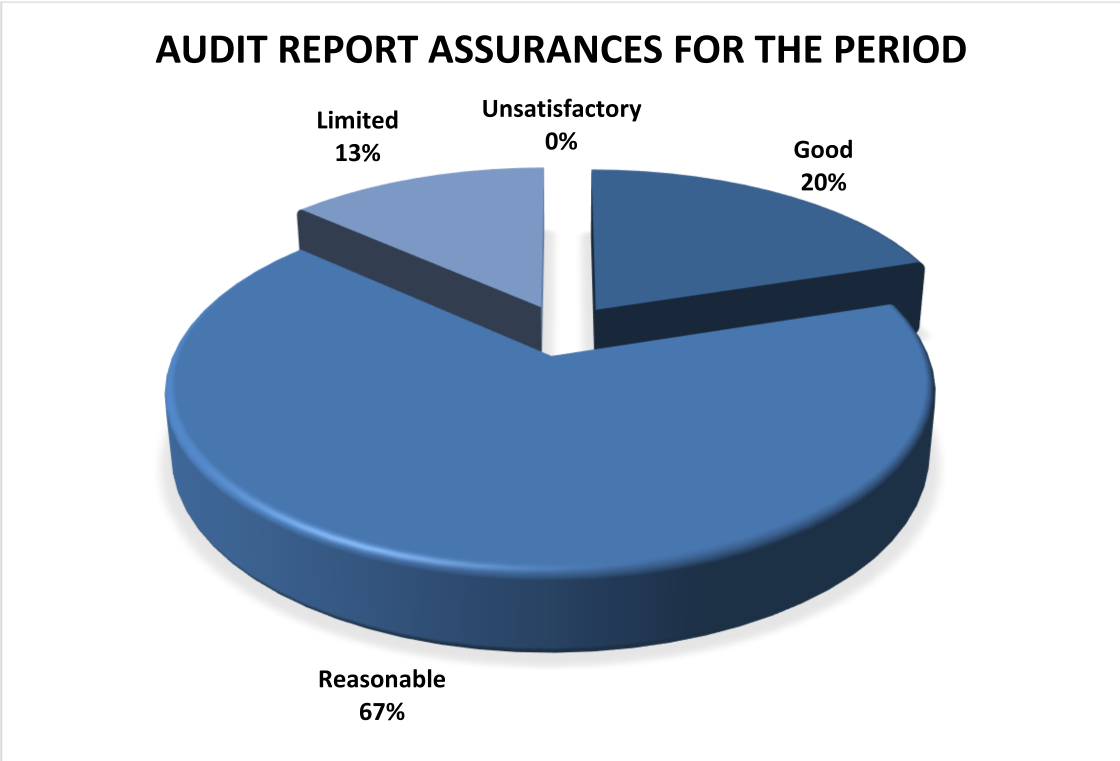


	Adult Services	Chief Executive	Place and Enterprise	Children's Services	Public Health
Planned Days	106	621	267	84	53
Actual Days	3.7	133.6	115.2	24.4	24.2

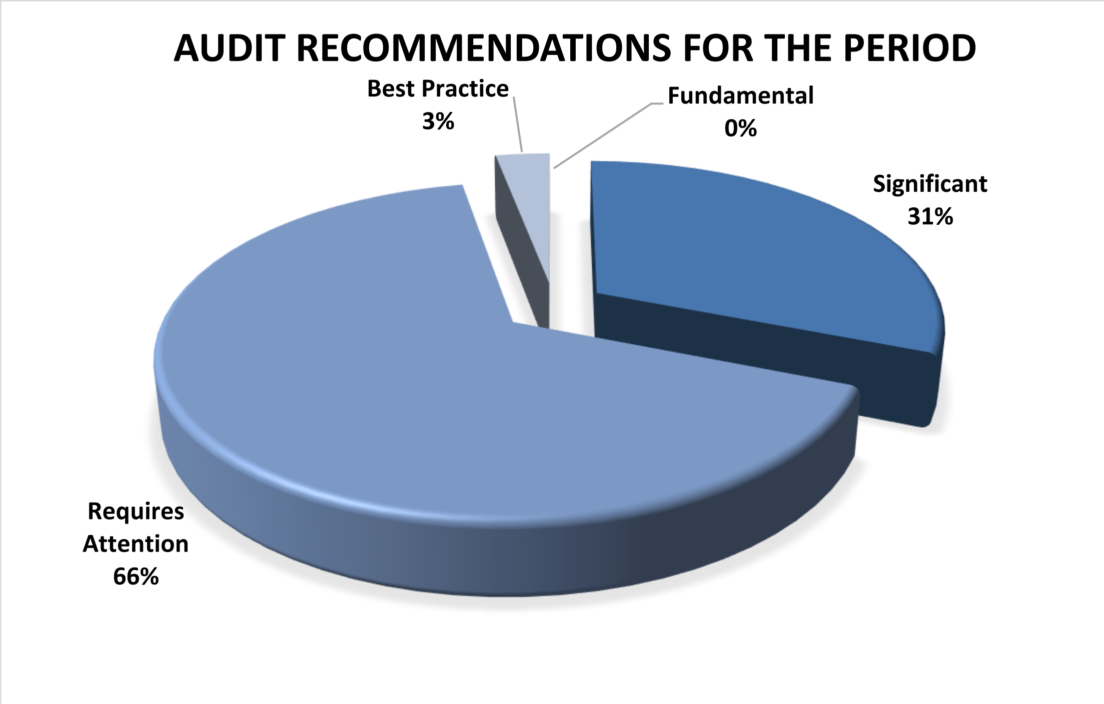
5.10 The following audits have been completed since the beginning of the year:

- Appointeeships / Court of Protection and Deputyships
- PFI
- Broadband Contract
- Section 106 Agreements
- Voluntary Car Scheme
- Corvedale CE Primary School
- Highley Primary School
- Strengthening Families Grant - June Claim
- Parking - Enforcement and Issue of NTOs and Fixed Penalty Notices
- Public Health Contracts
- Domestic Abuse
- Capital - Management and Monitoring
- Sales Ledger
- Procurement Cards
- Digital Customer Services Design Phase
- Mobile Devices - Phones and Tablets Including Billing
- Payroll System
- Wireless Networking
- ITIL
- Ludlow Customer Service Point Cash Regularity Audit
- Skype

5.11 The assurance levels awarded to each completed audit area appear in the attached graph:



5.12 The overall spread of recommendations agreed with management following each audit review appear in the attached graph:



5.13 Up to the 12th August 2018, 16 reports have been issued, providing good or reasonable assurances, accounting for 76% of the opinions delivered. This represents an increase in the higher levels of assurance for this period, compared to the previous year outturn of 64%. This is offset by a corresponding decrease in limited and unsatisfactory assurances, currently 24% compared to the previous year outturn of 36%.

5.14 During this period, there is no strong pattern of areas attracting lower assurance levels. Control objectives evaluated and not found to be in place as part of these audit reviews appear in a summary of the planned audit reviews which resulted in limited assurance in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.

5.15 Two draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of several honorary funds and the certification of a grant claim.

5.16 A total of 200 recommendations have been made in the 21 final audit reports issued so far, this year; these are broken down by audit area and appear in **Appendix A, Table 7**.

5.17 No fundamental recommendations have been identified.

5.18 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach**

adopted to following up recommendations highlighting Audit Committees involvement.

5.19 No significant recommendations have been rejected by management.

5.20 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at **Appendix A, Table 1.**

- **Value for money review:** was a joint exercise with the Commissioning Data Analysis and Intelligence team to assess senior managers understanding, awareness and delivery of Value for Money (VFM) in their service area. Information from the survey provided data to the business to help target its learning and share best practice and provide assurance to the Chief Executive Officer and Directors as to the VFM culture.
- **IT recommendation follow up 2017/18**: Across the IT control environment there were many significant and fundamental recommendations being implemented. Not all associated audits could be delayed until the last quarter in 2017/18 maximising the time given to service areas to implement these recommendations. To reflect the fast pace of change in this environment and to enable Audit to report appropriately on the internal control environment for the year end opinion, a focused review of key control recommendations (fundamental and significant) was conducted towards the year end. This provided maximum opportunity for the service to demonstrate delivery of improved controls and an update on agreed recommendations following audits completed previously. The information gained was used to inform the Audit year end opinion by demonstrating a direction of travel in respect of recommendation implementation.
- Audit worked with a service area to provide a **health check** for an area that was struggling to meet demand within it's available resources. Potential control improvements were identified for the managers to consider and implement.
- Every school submits an annual **School Financial Value Standard (SFVS)** and Assurance form to the Council. The SFVS helps schools to manage their finances and provides assurance to the Council and their governors that they have secure financial management in place. The Council uses this information to inform their programme of financial assessment and audit. Internal Audit analyses the results received for the Section 151 Officer to submit the dedicated schools grant assurance form, covering all maintained schools in the area, to the Department for Education.
- A review of **voluntary redundancy calculations** performed by Human Resources was undertaken to ensure compliance with the Council's policy prior to being paid. All but one had been found to be paid correctly. The error was due to a change in the employee's hours and was rectified.
- **Highways:** A member of the public was concerned as to the length of time and therefore cost to upgrade a crossroad on the highway and wanted the matter to be referred to the 'District Auditor'. Enquiries with the relevant officers were made and fed back to the concerned person along with guidance of when and what the External Auditor would review. The Highways service was asked to provide appropriate ongoing communication on the matter.
- **Unauthorised absence advice**: A manager approached the service for advice following concerns in relation to an employee and their time recording, leave and sickness absence. Advice provided a way forward, support from Human Resources and direction to recover overpayments made which were not considered deliberate.

Direction of travel

5.21 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2018/19 to date	***24%***	***52%***	***24%***	***0%***	***100%***
2017/18	**20%**	**44%**	**29%**	**7%**	**100%**
2016/17	**7%**	**45%**	**31%**	**17%**	**100%**
2015/16	**14%**	**35%**	**42%**	**9%**	**100%**
2014/15	**17%**	**47%**	**28%**	**8%**	**100%**
2013/14	**30%**	**45%**	**15%**	**10%**	**100%**
2012/13	**31%**	**56%**	**12%**	**1%**	**100%**

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2018/19 to date	***3%***	***66%***	***31%***	***0%***	***100%***
2017/18	**3%**	**56%**	**41%**	**0%**	**100%**
2016/17	**4%**	**50%**	**46%**	**0%**	**100%**
2015/16	**4%**	**54%**	**42%**	**0%**	**100%**
2014/15	**6%**	**53%**	**40%**	**1%**	**100%**
2013/14	**15%**	**57%**	**27%**	**1%**	**100%**
2012/13	**23%**	**57%**	**20%**	**0%**	**100%**

5.22 The number of lower level assurances 24%, at this point in the year, is lower than the outturn for 2017/18 of 36%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This does not currently demonstrate any one area of concern which is a positive result, however, Members should note that only a proportion of the plan has been completed to date and the main financial and governance areas are yet to be completed.

Performance measures

5.23 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

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

Draft Internal Audit Risk Based Plan 2018/19 - Audit Committee 1st March 2018
Public Sector Internal Audit Standards (PSIAS)
Audit Management system
Accounts and Audit Regulations 2017

Cabinet Member (Portfolio Holder)
Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A
Table 1: Summary of actual audit days delivered against plan 1st April 2018 to 12th August 2018
Table 2: Final audit report assurance opinions issued in the period 1st April 2018 to 12th August 2018
Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2018 to 12th August 2018
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Audit recommendations made in the period 1st April 2018 to 12th August 2018
Table 8: Recommendation follow up process (risk based)
Appendix B - Audit plan by service 1st April 2018 to 12th August 2018

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2018 to 12th August 2018

	Original Plan	Revised Plan	12 August 2018 Actual	% of Original Complete	% of Revised Complete
Chief Executive	707	621	133.6	19%	22%
Finance, Governance and Assurance	392	348	78.3	20%	23%
Governance	30	23	8.6	29%	37%
Workforce and Transformation	257	220	46.7	18%	21%
Legal and Democratic	28	30	0.0	0%	0%
Adult Services	172	106	3.7	2%	3%
Place and Enterprise	342	267	115.2	34%	43%
Children's Services	173	84	24.4	14%	29%
Public Health	70	53	24.2	35%	46%
S151 Planned Audit	**1,464**	**1,131**	**301.1**	**21%**	**27%**
Contingencies and other chargeable work	566	551	188.8	33%	34%
Total S151 Audit	**2,030**	**1,682**	**489.9**	**24%**	**29%**
External Clients	226	229	62.8	28%	27%
Total	**2,256**	**1,911**	**552.7**	**24%**	**29%**

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in the period from 1st April 2018 to 12th August 2018

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	1	6	3	0	10
Finance, Governance and Assurance	0	2	1	0	3
Governance	0	0	0	0	0
Workforce and Transformation	1	4	2	0	7
Legal and Democratic	0	0	0	0	0
Adult Services	1	0	1	0	2
Place and Enterprise	1	2	0	0	3
Children's Services	1	1	1	0	3
Children's Services: Schools	0	1	1	0	2
Children's Services: Others	1	0	0	0	1
Public Health	1	2	0	0	3

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Total for 2018/19 to date ➢ **Numbers**	**5**	**11**	**5**	**0**	**21**
➢ **Percentage**	**24%**	**52%**	**24%**	**0%**	**100%**
Percentage 2017/18	**20%**	**44%**	**29%**	**7%**	**100%**
Percentage 2016/17	**7%**	**45%**	**31%**	**17%**	**100%**
Percentage 2015/16	**14%**	**35%**	**42%**	**9%**	**100%**
Percentage 2014/15	**17%**	**47%**	**28%**	**8%**	**100%**
Percentage 2013/14	**30%**	**45%**	**15%**	**10%**	**100%**
Percentage 2012/13	**31%**	**56%**	**12%**	**1%**	**100%**

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April 2018 to 12th August 2018 listed by service area[1]

Unsatisfactory assurance

None

Limited assurance

Adult Services: Appointeeships / Court of Protection and Deputyships (Unsatisfactory 2016/17)
To ensure that recommendations made in the 2016/17 audit in relation to the following areas have been implemented as per the original management responses:

1. Written procedures and policies are in place in relation to appointeeships and deputyships.
2. A process exists to ensure that all individuals with an appointeeship or deputyship are reviewed and the relevant application made.
3. Client finances are not misappropriated and are used effectively.
4. Income due is collected and monitored.
5. Appropriate action is taken upon notification of the death of a client.

Children's Services: Corvedale CE Primary School (Unsatisfactory 2016/17)
To ensure that recommendations made in the 2016/17 audit in relation to the following areas have been implemented as per the original management responses:

1. Budget income is identified, collected and banked in accordance with procedures.
2. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
3. The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
4. The school fund is operated in accordance with the school fund notes of guidance.
5. Electronically held data is secure and can be restored in the event of IT failure.
6. Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.

[1] Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

Finance, Governance and Assurance: Sales Ledger (Limited 2016/17)

1. Previous recommendations have been actioned.
2. Periodic Income is invoiced and collected in accordance with defined policy and procedures.
3. There are satisfactory collection and write off procedures.
4. Management information in respect of debtors is accurate, timely and adequate.

Workforce and Transformation: Wireless Networking

1. Appropriate project structures are in place to deliver Shropshire Council's new Wi-Fi facilities.
2. Appropriate project governance arrangements are in place, to provide management with a suitable framework to make project decisions.
3. Project resources are carefully considered to ensure that the project is successfully completed on time and within budget.
4. Communication is direct and efficient to allow effective decision making.

Workforce and Transformation: Ludlow Customer Service Point- Cash Regularity Audit

1. Security of the site and income collected is appropriate.

Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 6: Glossary of terms

Significance
The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion
The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of several individual engagements and other activities for a specific time interval.

Governance
Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk
The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control
Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Impairment
Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Table 7: Audit recommendations made in the period from the 1st April 2018 to 12th August 2018

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	73	25	0	101
Finance, Governance and Assurance	0	30	10	0	40
Governance	0	0	0	0	0
Workforce and Transformation	3	43	15	0	61
Legal and Democratic	0	0	0	0	0
Adult Services	0	17	10	0	27
Place and Enterprise	0	13	2	0	15
Children's Services	3	17	23	0	43

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Children's Services: Schools	3	17	23	0	43
Children's Services: Others	0	0	0	0	0
Public Health	0	12	2	0	14
Total for 2018/19 to date ➢ **Numbers**	**6**	**132**	**62**	**0**	**200**
➢ **Percentage**	**3%**	**66%**	**31%**	**0%**	**100%**
Percentage 2017/18	**0%**	**41%**	**56%**	**3%**	**100%**
Percentage 2016/17	**4%**	**50%**	**46%**	**0%**	**100%**
Percentage 2015/16	**4%**	**54%**	**42%**	**0%**	**100%**
Percentage 2014/15	**6%**	**53%**	**40%**	**1%**	**100%**
Percentage 2013/14	**15%**	**57%**	**27%**	**1%**	**100%**
Percentage 2012/13	**23%**	**57%**	**20%**	**0%**	**100%**

Table 8: Recommendation follow up process (risk based)

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

APPENDIX B

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 12th AUGUST 2018

	Original Plan Days	Sept Revision	Revised Plan Days	12th August 2018 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	**30**	**-7**	**23**	**8.6**	**29%**	**37%**
Finance Governance & Assurance						
Finance Transactions	108	-10	98	0.4	0%	0%
Finance and S151 Officer	101	-27	74	5.0	5%	7%
Financial Management	70	13	83	25.3	36%	30%
Procurement and Contract Management	61	-3	58	38.9	64%	67%
Revenues and Benefits	20	-8	12	0.0	0%	0%
Risk Management and Insurance	8	-1	7	0.0	0%	0%
Treasury	24	-8	16	8.7	36%	54%
	392	**-44**	**348**	**78.3**	**20%**	**23%**
Workforce and Transformation						
Human Resources	97	-44	53	15.5	16%	29%
Customer Services	13	-5	8	2.5	19%	31%
ICT	147	12	159	28.7	20%	18%
	257	**-37**	**220**	**46.7**	**18%**	**21%**
Legal and Democratic						
Information Governance	8	5	13	0.0	0%	0%
Legal Services	20	-3	17	0.0	0%	0%
	28	**2**	**30**	**0.0**	**0%**	**0%**
CHIEF EXECUTIVE	**707**	**-86**	**621**	**133.6**	**19%**	**22%**
ADULT SERVICES						
Social Care Operations						
Long Term Support	96	-37	59	3.5	4%	6%
Assistive Services	8	0	8	0.0	0%	0%
Provider Services - Group Homes	8	-1	7	0.0	0%	0%
Housing Services	28	-8	20	0.2	1%	1%
	140	**-46**	**94**	**3.7**	**3%**	**4%**

	Original Plan Days	Sept Revision	Revised Plan Days	12th August 2018 Actual	% Original Plan Achieved	% Revised Plan Achieved
Social Care Efficiency and Improvement						
Developmental Support	**32**	**-20**	**12**	**0.0**	**0%**	**0%**
ADULT SERVICES	**172**	**-66**	**106**	**3.7**	**2%**	**3%**
PLACE AND ENTERPRISE						
Director of Place and Enterprise						
Corporate Performance Management	**0**	**10**	**10**	**1.7**	**0%**	**17%**
Business, Enterprise and Commercial Services						
Commercial Services	8	0	8	2.3	29%	29%
Shire Services	25	-13	12	0.0	0%	0%
Strategic Asset Services	64	-26	38	0.0	0%	0%
	97	**-39**	**58**	**2.3**	**2%**	**4%**
Economic Development						
Business & Enterprise	29	-12	17	1.3	4%	8%
Development Management	24	-11	13	13.2	55%	102%
Planning & Corporate Policy	16	26	42	40.4	253%	96%
Project Development	17	-4	13	2.1	12%	16%
	86	**-1**	**85**	**57.0**	**66%**	**67%**
Infrastructure and Communities						
Highways	65	6	71	25.6	39%	36%
Environmental Maintenance	0	8	8	0.1	0%	1%
Library Services	4	-4	0	0.0	0%	0%
Public Transport	48	-23	25	17.7	37%	71%
Waste & Bereavement	24	-24	0	0.0	0%	0%
	141	**-37**	**104**	**43.4**	**31%**	**42%**
Culture and Heritage						
Theatre Severn and OMH	10	0	10	10.8	108%	108%
Leisure Services	8	-8	0	0.0	0%	0%
	18	**-8**	**10**	**10.8**	**60%**	**108%**
PLACE AND ENTERPRISE	**342**	**-75**	**267**	**115.2**	**34%**	**43%**
CHILDREN'S SERVICES						
Safeguarding						

	Original Plan Days	Sept Revision	Revised Plan Days	12th August 2018 Actual	% Original Plan Achieved	% Revised Plan Achieved
Children's Placement Services & Joint Adoption	36	-10	26	12.6	35%	48%
Safeguarding	6	4	10	6.4	107%	64%
	42	**-6**	**36**	**19.0**	**45%**	**53%**
Education, Improvement and Efficiency						
Education Improvements	50	-20	30	5.4	11%	18%
Primary/Special Schools	54	-36	18	0.0	0%	0%
Secondary Schools	27	-27	0	0.0	0%	0%
	131	**-83**	**48**	**5.4**	**4%**	**11%**
CHILDREN'S SERVICES	**173**	**-89**	**84**	**24.4**	**14%**	**29%**
PUBLIC HEALTH						
Public Health	10	5	15	5.8	58%	39%
Community Safety	8	-8	0	0.0	0%	0%
	18	**-3**	**15**	**5.8**	**32%**	**39%**
Public Protection						
Community Safety	24	-10	14	8.5	35%	61%
Environmental Protection and Prevention	20	-7	13	0.0	0%	0%
	44	**-17**	**27**	**8.5**	**19%**	**31%**
Bereavement	**8**	**3**	**11**	**9.9**	**124%**	**90%**
PUBLIC HEALTH	**70**	**-17**	**53**	**24.2**	**35%**	**46%**
Total Shropshire Council Planned Work	**1,464**	**-333**	**1,131**	**301.1**	**21%**	**27%**
CONTINGENCIES						
Advisory Contingency	50	-10	40	14.1	28%	35%
Fraud Contingency	200	0	200	71.3	36%	36%
Unplanned Audit Contingency	50	4	54	19.3	39%	36%
Other non audit Chargeable Work	266	-9	257	84.1	32%	33%
CONTINGENCIES	**566**	**-15**	**551**	**188.8**	**33%**	**34%**
Total for Shropshire	**2,030**	**-348**	**1,682**	**489.9**	**24%**	**29%**

	Original Plan Days	Sept Revision	Revised Plan Days	12th August 2018 Actual	% Original Plan Achieved	% Revised Plan Achieved
EXTERNAL CLIENTS	**226**	**3**	**229**	**62.8**	**28%**	**27%**
Total Chargeable	**2,256**	**-345**	**1,911**	**552.7**	**24%**	**29%**

Grant Thornton

Annual Audit Letter

Year ending 31 March 2018

Shropshire Council

August 2018

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Your key Grant Thornton team members are:

Mark Stocks
Partner
T: 07584 591488
E: mark.c.stocks@uk.gt.com

Emily Mayne
Senior Manager
T: 07880 456112
E: emily.j.mayne@uk.gt.com

David Rowley
Executive
T: 07798 561062
E: david.m.rowley@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Shropshire Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 24 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £11,648,000, which is 2**%** of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £11,390,000, which is also 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £18,650,000, which is 1**%** of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 30 July 2018. We gave an unqualified opinion on the pension fund accounts of Shropshire County Pension Fund on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Shropshire Council in accordance with the requirements of the Code of Audit Practice.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Council Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £11,648,000, which is 2**%** of the group's gross revenue expenditure. We undertook an evaluation of the components of the group based on a measure of materiality, considering each as a percentage of total group assets and revenues, to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Shropshire Towns and Rural Housing (STaRH) and a targeted approach was required for the remaining components.

We determined materiality for the audit of the Council's accounts to be £11,390,000, which is 2**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We did not set a lower level of specific materiality for any individual balances.

We set a lower threshold of £582,400 for the group and £569,500 for the Council, above which we reported errors to the Audit Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Shropshire County Pension Fund accounts, we determined materiality to be £18,650,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits. A separate materiality of 5% of headline materiality was set for investment management fees due to the public interest in these.

We set a threshold of £491,908 above which we reported errors to the Pension Fund's Pensions Committee.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published within the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Audit opinion

Preparation of the accounts
The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Council accounts
We gave an unqualified opinion on the group's financial statements on 30 July 2018, in advance of the national deadline.

Issues arising from the audit of the Council's accounts
We reported the key issues from our audit to the Council's Audit Committee on 24 July 2018.

The Council purchased a Jersey Property Unit Trust which holds the three Shopping Centres in the centre of Shrewsbury. This was a significant transaction for the Council and arose in year and so was not included within our initial audit plan. This purchase supports the Council's economic regeneration objective as well as potentially bringing in an additional income stream.

The purchase was made following considerable scrutiny from Members. The Council has sought independent advice from a local firm of Chartered Accountants and Tax Advisors and have used their proposed accounting treatment. We have reviewed the accounting treatments and consider that in the main they are appropriate. We have challenged some areas of the accounting treatment where we consider there is uncertainty and have identified parts of the accounting treatment where we consider that a non material error exists.

In summary, we consider that the unquoted equity investment disclosed at £52.2 million on the Council's balance sheet is currently overstated by £2.9 million (deferred income by £2.4 million and provisions by £0.5 million). The Council has not adjusted for these items and we consider that they are errors on the financial statements.

The Council did not obtain a formal 'market value' valuation of the Riverside Shopping Centre. Without this, we have no surety over the current fair value of the asset. The Council should revalue properties that have a market based valuation annually to inform the disclosures in their group financial statements. Therefore, there is uncertainty around the full £3.5 million value on the balance sheet.

Pension fund accounts
We gave an unqualified opinion on the pension fund accounts of Shropshire County Pension Fund on 30 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Pension Fund's Pension Committee on 27 July 2018.

Annual Governance Statement and Narrative Report
We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 30 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Shropshire Council in accordance with the requirements of the Code of Audit Practice. Our certificate was issued on 30 July 2018.

Audit of the Accounts

Council Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its land and buildings on a triennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** The following work was performed in this area; • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Our audit has not identified any material issues which we wish to bring to your attention.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** • The following work was performed in this area; • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit has not identified any issues which we wish to bring to your attention in this area.

Audit of the Accounts

Council Significant Audit Risks – continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable	Therefore we do not consider this to be a significant risk for Shropshire Council.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Auditor commentary** • We have performed the following work in this area: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of accounting estimates, judgements and decisions made by management – review of unusual significant transactions – review of significant related party transactions outside the normal course of business	We have not noted any issues in this area which we wish to draw your attention to.

Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	As part of our audit work we have: • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • consideration of the competence, expertise and objectivity of management experts used. • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period.	During the course of this work, we noted that the fund's holdings managed by Harbour Vest were understated by £3.411 million. We believe that this has come about as a result of earlier reporting deadlines meaning that management now utilise capital statements from September 2017 (adjusted for known capital movements) as opposed to utilising those available at a date closer to year end. We feel that this is a reasonable course of action, given that the investment managers report in arrears and management have been required to produce accounts and begin the audit earlier than in previous years. Ultimately, asset values are understated which suggests that the fund's reported position has a higher level of prudence than if overstated. However, the variance is above trivial and therefore we are required to report this to the Committee as those charged with governance.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
1 **Financial resilience over the medium to long term** • Despite opting to increase Council Tax by the maximum rate, the Council has identified a £59 million funding gap between 2018/19 to 2022/23. It has agreed a savings target of £43 million over the same period. The Council is satisfied that it will remain in financial balance in 2018/19 and 2019/20. Achieving the required savings will be extremely challenging. • We will review the Council's Financial Strategy and financial reports to Cabinet, assessing the assumptions used. We will also consider the Council's delivery and any reported key variances from the Financial Strategy.	The Council's revenue position for 2017/18 delivered a net underspend of £0.655 million. Within this position only one service line overspent, Children's Services by £4.569 million. The overspend was offset by savings elsewhere, the majority of which came from savings from the corporate centre (£3.7 million). As part of its budget, the Council set a savings target of £15.026 million. It delivered £12.479 million of these savings across a number of services. Reserves as at 31 March 2018 remain at an appropriate level. The General Fund balance moved from £14.698 million at 1 April 2017 to £15.436 million at 31 March 2018. Earmarked reserves have also increased from £63.859 million to £69.839 million. This includes £24.5 million in Financial Strategy Reserve which is used to fund one off savings proposals. The Outturn for the Housing Revenue Account for 2017/18 is an underspend of £0.007m and the level of the Housing Revenue Account reserve stands at £8.225m (2016/17 £9.031m). The outturn capital expenditure for 2017/18 is £49.608m, representing 83% of the re-profiled budget of £59.748m. All £10.140 million of this underspend has been carried forward to the 2018/19 programme. For 2018/19 the Council has set a net revenue budget of £582 million. It has increased Council Tax by 5.99% and has programmed savings of £15.54 million to enable it to contain expenditure at this level. However we note that £8.34 million of savings remain amber or 'red-rated' and the Council is developing plans to deliver these. We also note that the Council plans to use reserves of £7.133 million to fund its expenditure. We remain concerned that the Council is using non-recurrent funding from reserves to balance its budget and fund recurrent expenditure. The Council has predicted the following levels of gross expenditure in 2019/20: £576 million, 2020/21: £575 million, 2021/22: £589 million, and 2022/23: £601 million. Whether or not the Council needs to use reserves during this period is dependent upon the assumptions that are included within the forecast. However, if it is assumed that Government 'one off' funding continues then the use of reserves during this period is forecast to be low. Similarly, if the Highways savings are continued and Council Tax is raised by 2.99% per annum over the period there is a net contribution to reserves in excess of £5 million. Other significant assumptions over the period include • £10.7 million of income from commercial activity of which around £2.7m has already been delivered from Shrewsbury Shopping Centre • £9 million of savings from Digital Transformation. The Council has chosen to invest in a Shopping Centre as part of its income generation and economic regeneration strategy. The investment is approximately £52 million and it is anticipated that it, and other commercial activities, will generate approximately £10.7 million of income over the next 4-5 years. The Council has been supported with a range of detailed due diligence work from Montagu Evans and Browne Jacobson. The purchase has been funded in the short to medium term from available cash investment balances. At the time of the purchase the Council held external cash investments to the value of approximately £150 million.	**Auditor view** The Council's financial stability going forward is highly dependent on the factors set out in our findings. The Council will need to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans are delivered in full. It should further consider whether it needs to maintain the highways savings or to reverse them depending on the funding available. Risks remain to the Council from the Shopping Centre investment, in that the property may devalue and the asset may not deliver the returns that the Council anticipated. However, we are satisfied that this would not undermine the Council's financial stability in the short term as it has sufficient reserves to make up any shortfall in income generation.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**Replacement of IT infrastructure / business continuity** • Previous reviews by external audit and other stakeholders have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. • We will review the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.	There has been a significant weakness in IT infrastructure and business continuity arrangements within the Council for several years. The Head of Internal Audit Opinion has been qualified due to weaknesses in this area for the past five years. The Head of Internal Audit Annual Report for 2017/18 however, demonstrated improved assurance across IT infrastructure and in the Council's internal control environment and this has enabled the Head of Internal Audit to issue an unqualified opinion for 2017/18. The Council has had a significant turnover of Senior Leadership within the IT directorate resulting in a lack of clear vision being communicated and implemented. In October 2016, the Council allocated responsibility for IT to the Head of Human Resources and Development. Following this, the 'IT strategy 2016-19' was presented and approved by Cabinet in December 2016. This prioritised the overall vision, but also set out how the more pressing challenge of implementing adequate Business Continuity and Disaster Recovery Plans would be addressed. The Head of Human Resources and Development is the Senior Responsible Officer (SRO) for the overall Digital Transformation Programme, of which IT infrastructure and business continuity are a key part. By March 2017, the Council received assurance that the actions identified to address the IT infrastructure and business continuity risks had been implemented. However, the business continuity plans at that time remained untested with plans to undertake 'live' tests in the autumn of 2017. Since this time IT Systems recovery testing has been undertaken in some parts of the Council's business. Internal Audit have rated the recovery system as 'reasonable'. Guidance is now in place to recover all systems and has been tested in a test environment for most systems. However, 25 systems identified for disaster recovery testing are yet to be completed. Similarly, there has been no full disaster recovery testing undertaken replicating a complete hardware failure at Shirehall with fail-over to the Nuneaton recovery site. Plans for how services respond to systems dropping out need to be developed and implemented. The Council is planning to test the whole disaster recovery plan in July 2018. In September 2018 it will do a live exercise on the entire disaster recovery plan, and will use the backups at Nuneaton to recover the systems. Continued action is therefore needed in this area. <u>Digital transformation</u> Due to the scale of the risk, Digital Transformation is now reported to Audit Committee so that this Committee has oversight of the progress being made and holds the Head of Human Resources and Development to account. In addition the Performance Management Scrutiny Committee also receives a regular update on performance and wider implications of the Digital Transformation Project implementation.	**Auditor view** Progress has been made in relation to the IT infrastructure and business continuity arrangements. The Council has undertaken some IT Systems recovery testing, and plan to undertake a full disaster recovery exercise to test the embeddedness of arrangements. Until this has been fully tested it remains a risk for the Council. The Digital Transformation Project has overtaken the longer-term requirement for Business Continuity and Disaster Recovery arrangements. However, the current risk was sufficiently significant to warrant the immediate action taken and the testing of these arrangements will be key for providing the Council with greater ICT confidence in the short to medium term.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**Replacement of IT infrastructure / business continuity** • Previous reviews by external audit and other stakeholders have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. • We will review the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.	The Digital Transformation Project is progressing well for CRM, and IT infrastructure. We understand that: • ERP system – The design has been signed off by the business. However, there are some issues specifically around payroll elements. Communications and training plans are in place and are being implemented. The ability to resource the project remains an issue and the planned go live date has been delayed until 31st October 2018. In the last 2 weeks a significant push to provide more resource into the project has resulted in an increasing number of agency and contract staff that will help delivery. • Social care system – The Adults work stream has had be re-planned and there are red risks around data testing and reporting. The Children's work stream continues at red overall due to the quantity of forms to be built and other configuration items outstanding. Further pressure has been put on this work stream as the Children's form designer has left the project at short notice. Additional resources are being brought in but overall the project has been delayed. The revised planned is that Adults will go live in December, and Children's in February 2019. As the Care First system is shut down in March 2019 the council needs to ensure that its revised plans are delivered • Customer experience system – The Enghouse Contact Centre Telephony solution has now gone live for Theatre Severn, ICT Service Desk and ICT Applications Teams and Revenues and Benefits. The contact centre software is now being used by a range of Council Services. The email response system is currently being configured and Web chat facility proof of concept is at final round of testing and will go live in September. The CRM complaints process and account manager functionality are in test and scheduled for go live in Oct. The work with Hitachi and the Portal software developer is on schedule for My Shropshire Portal to go live in November. <u>IT Infrastructure</u> Additional server capacity was purchased for both Shirehall and the Council's back-up / failover site in Nuneaton. The new WIFI system has also been installed at Shirehall providing wider and more resilient coverage. The Council also replaced the most at-risk desktop computers, mainly with laptops to facilitate agile working going forward, but with another desktop computer where a business case was made. The Council replaced c1200 computers as a result of this exercise. Internal Audit reviewed the PC and hardware replacement programme in January 2018 and July 2017 respectively. They concluded that reasonable assurance could be given that an appropriate IT Strategy exists which sets out PC and hardware requirements. A further round of computer replacements is planned but requires officer and member agreement.	**Auditor view** The Council consider that the Digital Transformation Programme will be key to delivering reform by driving more responsive, flexible and joined up systems. It is anticipated that this will remove duplication, increase productivity and change delivery models to the public. This will also allow greater flexibility for data sharing across the Council to support data interrogation. A challenge for the Council will be the transition from the old IT systems and hardware to the new. There will also be a requirement to keep existing systems and hardware operational until the new are fully procured and implemented. The Council will require a cultural change to support innovation and agile working from the new Digital solutions. The project teams are working hard to mitigate the risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer.

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A. Reports issued and fees

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

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory group audit including the Council's financial statements	133,845	133,845	133,845
Proposed fee variation for Jersey Property Unit Trust	?	TBC	N/A
Statutory audit of the Pension Fund	23,427	23,427	23,427
Proposed fee variation for Pension Fund	1,979	1,979	1,979
Housing Benefit Grant Certification	13,445	TBC	11,505
Audit of subsidiary – Shropshire and Towns Rural Housing (STaRH)	15,880	15,880	15,880
Audit of subsidiary – West Mercia Energy (fee being equally split between Shropshire, Herefordshire and Worcestershire Councils)	4,333	4,333	4,333
Audit / limited assurance of subsidiary company – IP & E Ltd (not yet formally appointed for 2017/18)	TBC	TBC	8,500
Grant / Return certification outside the PSAA regime for 2017/18	7,800	**TBC**	7,800
Total audit fees (excluding VAT)	**TBC**	**TBC**	**207,269**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

- There is a £2,000 difference in fees disclosed for grant certification and that set by PSAA.
- The Council has elected to not disclose audit fees for the other subsidiaries separately in a disclosure note within the group accounts due to their consideration of materiality.

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Non-audit services:	
Strategic Financial Development Programme	2,750
CFO Insights licence	10,000
	£12,750

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor. The Council has elected not to disclose fees for the Strategic Financial Development Programme and CFO insights licence.

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Audit Findings

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Your key Grant Thornton team members are:

John Gregory
Director
T: 07880 456 107
E: john.Gregory@uk.gt.com

Jim McLarnon
Manager
T: 07827 876 040
E: James.A.McLarnon@uk.gt.com

David Rowley
Executive
T: 07823 537 389
E: David.M.Rowley@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Shropshire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and • have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 11. We have not identified any issues requiring an adjustment to the Fund's reported financial position. However, as a function of the earlier reporting deadline in 2017/18, we note two variances between the fund's reported position and that provided by investment managers. Whilst we do not see these as being indicative of a control weakness, we are required to report these to those charged with governance as they are above our trivial threshold. This issue is set out in further detail at the unadjusted misstatements section of the report detailed in Appendix A. Subject to obtaining two outstanding bridging letters (in relation to the controls reports provided by the Fund's investment managers), we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2018

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The working papers issued to the audit team were of excellent quality and the finance team were very supportive throughout the audit. This contributed to the audit team being able to complete the audit in line with the 31st July 2018 national deadline.

Summary

Overview of the scope of our audit

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 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 Pension Fund's business and is risk based, and in particular included:

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding documentation being provided, we anticipate issuing an unqualified audit opinion following the Pensions Committee meeting on 24 July 2018.

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 calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Shropshire County Pension Fund.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	18.650m	Based on 1% of net assets as at the interim audit stage (November 2017). This was considered to provide sufficient assurance over account balances without rendering the audit inefficient. Net asset values did not move sufficiently between interim and final audit to warrant recalculation of materiality.
Performance materiality	13.988m	Set at 75% of headline materiality. Performance materiality set lower than headline materiality in order to mitigate the risk of a combination of lower balance issues resulting in a material misstatement.
Trivial matters	0.933m	Set at 5% of headline materiality. Balances below this value are considered to be clearly trivial.
Materiality for specific transactions, balances or disclosures	0.655m	Management fees; owing to a level of sensitivity around these disclosures, a separate materiality was set for these balances of 5% of the total of management fees.

Significant audit risks

Risks identified in our Audit Plan	Commentary
❶ **Improper revenue recognition** Under ISA 240 (UK) there is a 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Shropshire County Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Shropshire County Pension Fund.
❷ **Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • The following work was performed in this area: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of accounting estimates, judgements and decisions made by management – review of unusual significant transactions Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Commentary
3 **The valuation of Level 3 investments is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** The following work has been performed in this area; • gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • consideration of the competence, expertise and objectivity of any management experts used. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period. During the course of this work, we noted that the fund's holdings managed by Harbour Vest were understated by £3.411m. We believe that this has come about as a result of earlier reporting deadlines meaning that management now utilise capital statements from September 2017 (adjusted for known capital movements) as opposed to utilising those available at a date closer to year end. We feel that this is a reasonable course of action, given that the investment managers report in arrears and management have been required to produce accounts and begin the audit earlier than in previous years. Ultimately, asset values are understated which suggests that the fund's reported position has a higher level of prudence than if overstated. However, the variance is above trivial and therefore we are required to report this to the Committee as those charged with governance.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**The valuation of Level 2 investments is incorrect** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We identified valuation of level 2 investments as a risk requiring particular audit attention.	Auditor commentary We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • reviewed the reconciliation of information provided by the pension fund's/individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; • considered the competence, expertise and objectivity of any management experts used. • for a sample of investments, tested the valuation by obtaining independent information from a third party source on unit prices. In line with our findings on Level 3 investments, we also noted a £1.3m understatement on assets managed by GIP. The reason behind this is similar to our observations on HarbourVest. Management are obliged to use earlier capital statements adjusted for known capital movements to derive a year end figure resulting in a higher likelihood of variances against the position reported by investment managers. As with the level 3 findings, this did not result in an overstatement of assets. Whilst we do not see this as a control issue, as the variance is above trivial we are required to report this to the Committee as those charged with governance.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
5 **Contributions** Contributions from employers and employees' represents a significant percentage (93%) of the Fund's revenue (excluding returns on investment). We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Fund's accounting policy for recognition of contributions for appropriateness; • gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls; • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; • Rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained. We did not find any issues which we wish to draw to your attention during this testing.
6 **Pension Benefits Payable** Pension benefits payable represents a significant percentage (91%) of the Fund's expenditure. We identified completeness of pension benefits payable as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • **evaluated** the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls; • tested a sample of individual pensions in payment by reference to member files; • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. We did not find any issues which we wish to draw to your attention during this testing.

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Going concern

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).

Going concern commentary

Management's assessment process	Auditor commentary
The following process was adopted: • The client's estimate of cash flows and movements on asset values over the next three years: • These were based on the assumption that both cash flows such as contributions and benefits payable would continue in line with prior periods and that asset values would continue to rise;	• Based on the method outlined, management were satisfied that the entity will continue as a going concern for at least the next three accounting periods; • The audit team are in agreement with this assessment. Whilst it is difficult to make reasonable predictions around certain aspects of this review (such as the future behaviour of asset values), we have satisfied ourselves that the fund is in a sufficiently robust position at present to meet its obligations going forward.
Work performed	**Auditor commentary**
Detail audit work performed on management's assessment	• The team tested the arithmetical accuracy of management's assessment and performed a reasonableness check of their future predictions against trends based on previous activity; • There are no factors or events which we consider would cast significant doubt over the pension funds ability to continue as a going concern • Whilst there are no specific requirements for the fund to comment on this assessment within their financial statements, we feel that management have provided an adequate level of disclosure for users of the accounts and other interested parties.
Concluding comments	**Auditor commentary**
	• Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable • Based on the above comments, we anticipate being able to issue an unmodified opinion.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• There are two key policies in relation to revenue recognition, in relation to contribution income and investment income. • Normal contributions are accounted for in the payroll month to which they relate; • Investment income is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits Is accounted for on an accruals basis, as is income from other investments.	• The accounting policies are appropriate under relevant accounting framework i.e. CIPFA Code of Practice • The accounting policy for revenue recognition has been adequately disclosed in the notes to the accounts • The accounting policies adopted are consistent when benchmarked against other similar bodies	(Green)
Judgements and estimates	• Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code. • The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund choses to rely on the valuation provided by the fund manager.	• The accounting policies are considered appropriate under the accounting framework in place i.e. CIPFA Code of Practice; and • Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence;	(Green)
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	(Green)

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Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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
1	**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 incidents in the period and no other issues have been identified during the course of the audit.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed aside from the omission of disclosure of transactions with the pension Fund management team. Further details of this are included at Appendix A.
3	**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.
4	**Written representations**	• A standard letter of representation has been requested from the Pension Fund, which is included within the Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the custodian and all investment managers working with the Fund. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, However, we are still awaiting two bridging letters (confirmation that internal controls have not changed between the end of the period covered by the investment manager's internal control report and the end of the Fund's accounting period) as at the time of writing.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report at the same time as our opinion on the financial statements.

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Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams. No non-audit services were identified.

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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

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Reason for not adjusting
1	**Holdings managed by Harbour Vest understated by £3.411m**	CR £3.411m	DR £1.370m	• Value not material either individually or in conjunction with other noted unadjusted misstatements.
2	**Holdings managed by GIP understated by £1.370m**	CR £1.370m	DR £1.370m	• As above
	Overall impact	**£4.781m**	**£4.781m**	

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Related Party Transactions	• Consistent with prior years, the related party transactions disclosure notes that details in respect of the remuneration of senior management are provided within the Shropshire Council financial statements	• We consider that pension fund financial statements should be capable of standing alone from the local authority financial statements and therefore our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the CIPFA Code of Practice	X
Various	• A small number of minor clerical issues were noted in the annual report. This is in line with expectations for a review of a report of this size	• Proposed amendments addressed by management	✓

Fees

We confirm below our final fees charged for the audit:

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£23,427	£23,427
Proposed fee variation	£1,979	£1,979
Total audit fees (excluding VAT)	**£25,406**	**£25,406**

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The variation is in respect of additional work which we are asked to do by the auditors of several admitted bodies to provide assurance in relation to the actuarial valuation of the relevant shares of the Fund's assets and liabilities.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Shropshire Council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of Shropshire Council (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;

have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Head of Finance, Governance and Assurance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or

the Head of Finance, Governance and Assurance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Head of Finance, Governance and Assurance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)
In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice we are required to report to you if:
we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Head of Finance, Governance and Assurance and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance, Governance and Assurance. The Head of Finance, Governance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Head of Finance, Governance and Assurance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Head of Finance, Governance and Assurance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

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

[Signature]

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

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date:

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Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2018

September 2018

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Introduction

Mark Stocks

Engagement Lead

T 0121 232 5437
M 07584 591488
E mark.c.stocks@uk.gt.com

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Emily Mayne

Engagement Manager

T 0121 232 5309
M 07880 456112
E emily.j.mayne@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Local Authority, and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress to date

Financial Statements Audit

We have completed our financial statements audit for 2017/18, providing you with an unqualified opinion.

The statutory deadline for the issue of the 2017/18 opinion which had been brought forward by two months to 31 July 2018 was met which is a significant achievement for your finance team.

Initial discussions around the accounting for the purchase of the shopping centres were slow to conclude but we provided our view within the Audit Findings Report. As this was a significant area of work requiring additional input from Senior Management, there will be an additional fee for this work. We will discuss this with your Senior Finance Officers and report back to Audit Committee on the final additional fee agreed once agreed with PSAA.

Key issues arising from the opinion audit will be fed into a wash-up process with finance staff which will be completed in the Autumn. We continue to strive to identified ways to streamline the process and continue to provide an efficient and effective audit.

All our significant conclusions are summarised in our Annual Audit Letter which is presented to this Committee meeting.

Value for Money

We have completed our value for money conclusion work for 2017/18 providing an unqualified conclusion on your arrangements. As in previous years, the financial resilience of your Council in the medium to long-term remains a significant challenge and will be something we focus our attention on in future years.

The findings from the 2017/18 value for money conclusion work will be a key start point for identifying the risks for 2018/19 and will be fed into our risk planning process in the Autumn.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

There are other grant claims which the Council appoints us to complete. Letters of Engagement are being confirmed and once appointed, we will complete the testing required.

The results of the certification work are reported to you in our certification letter.

Meetings

We meet with Senior Officers and Finance staff as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

Events

We provide a range of events and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

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Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Complete
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

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Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

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CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Head of Finance, Governance and Assurance briefed members on the Council's response to the Financial Resilience Index consultation?

MHCLG social housing green paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the social housing green paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and this projected to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

This paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing; almost 1,000 tenants shared their views with ministers at 14 events across the country, with over 7,000 contributed their opinions, issues and concerns online, sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on this green paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

This Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside the Green Paper, MHCLG have published a Call for evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

Social Housing Green Paper Consultation

Challenge question:

What does the Social Housing Green Paper mean for your local authority?

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MHCLG business rate pilots

The Secretary of State, James Brokenshire, has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

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From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would ‘pool’ their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

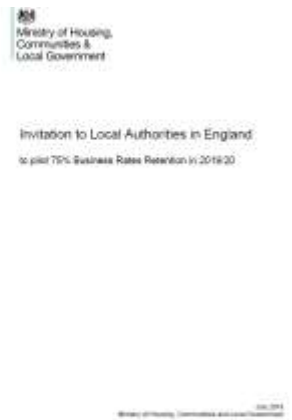
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities’ proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.


Ministry of Housing, Communities & Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20

Business Rates pilots 2019/20

Challenge question:

Have you considered the financial implications for your local authority of retaining 75% growth of your business rates?

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Grant Thornton website links

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Government website link

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