



<u>Committee and Date</u>
Audit Committee
20 July 2023

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 JUNE 2023
10.00 AM - 12.10 PM**

Responsible Officer: Michelle Dulson

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Present

Councillor Brian Williams (Chairman)

Councillors Simon Harris (Vice Chairman), Nigel Lumby, Roger Evans and Rosemary Dartnall

1 Apologies for Absence / Notification of Substitutes

No apologies were received.

2 Disclosable Pecuniary Interests

Members were 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 meeting held on the 14 February 2023

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 14 February 2023 be approved as a true record and signed by the Chairman.

Matters arising:

Dog Warden

In response to a query, the Internal Audit Manager explained that the Dog Warden Management update would be on the Agenda for the July meeting as this meeting was just for the Statement of Accounts.

Paragraph 67 – Second line assurance: Treasury Strategy 2023/24

Members sought reassurance on the statement made by the Executive Director of Resources (Section 151 Officer) that 'local authorities could not go bust as they were underwritten by Central Government'. In response, the Executive Director of Resources (Section 151 Officer) explained that it was a statement of fact and he

explained the way in which local authorities were set up under statute which meant that if it looked like a local authority was going bust certain mechanisms would come in from Central Government to either make a special provision for the use of capital, provision for increasing Council Tax above referendum limits and other mechanisms to ensure that didn't happen. In relation to borrowing from other Local Authorities that security was underwritten on the above basis.

Paragraph 62 - Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2022/23

An update was requested about whether the internal audit plan would indeed be completed by year end. In response, the Head of Policy and Governance explained that the work being delivered by external contractors had been substantially completed and would be reported in the Internal Audit Performance Report and the Annual Audit Opinion report being presented to the July meeting.

Further to the explanation that there would be a point whereby the internal control environment became a Strategic Risk if Internal Audit fell below a certain level, the Executive Director of Resources (Section 151 Officer) gave an update. He explained that all of the strategic risks were reviewed on an annual basis and that the internal control environment was not currently below the level where it would be considered a strategic risk but this would be continually reviewed.

4 Public Questions

There were no questions from members of the public.

5 Member Questions

There were no questions from Members.

6 Overall assurance: Annual Governance Statement 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which set out the Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance.

The Executive Director of Resources (Section 151 Officer) gave a brief introduction and explained that the AGS sat alongside the Statement of Accounts and it provided assurance that the appropriate governance had been undertaken over the last financial year. The Executive Director of Resources (Section 151 Officer) went on to explain how the AGS was produced and confirmed that once signed off by the Chief Executive and Leader of the Council, the AGS was published on the website and presented to the Audit Committee along with the Financial Outturn Report and Statement of Accounts so that overall assurance could be considered.

In response to a query about the enforcement notice received by the Council from the Information Commissioners Officer (ICO) in relation to Freedom of Information (FOI) response times, the Executive Director of Resources (Section 151 Officer) explained that whilst adhering to the relevant legislation, the timescales for delivering

responses (20 days) had been breached due to a number of issues in relation to the capacity of staff being able to pull together responses from across the organisation.

In direct response to the levels of FOI response rates that failed to meet the deadline, the Council have looked to restructure the Information Governance Team and the entire approach and processes for FOI responses across the organisation and would be discussed at an information governance review meeting scheduled for the following day to which the Executive Directors and senior officers would attend.

The Executive Director of Resources (Section 151 Officer) confirmed that the visibility for this was known across the organisation and that the enforcement notice had been issued on the basis of the information available to the ICO at that point in time and was part of the reason for the creation of the new post of Head of Policy and Governance. He assured the Committee that the Council was well on its way to ensuring it met FOI response times in future.

In response to further comments, the Head of Policy and Governance explained that this issue had been a keen focus since he took on the role in April and he had been in direct contact with the ICO since then and had agreed the Action Plan with them. The Action Plan set out the measures that the Council would take to ensure it complied with the legislation. The ICO were comfortable with the actions being proposed and the timescales for which they would be implemented although it was hoped to accelerate that process to ensure that the Council were following up on it.

A brief discussion ensued and the Head of Policy and Governance responded to a number of queries and explained how the action plan addressed how FOI requests were to be handled and managed within the timeframes. Members requested an update report at the next meeting to assure the Committee what action was being taken.

In response to a query about the various references throughout the AGS to Peer Reviews, the Executive Director of Resources (Section 151 Officer) reported that there had been three LGA (Local Government Association) Peer Reviews undertaken the previous year for Finance, Communications and Scrutiny and that reports for all three were available on the website. In response to a further query, the Executive Director of Resources (Section 151 Officer) reported that the Council had asked the LGA to consider the governance arrangements across the authority. He explained that the Peer Review undertaken within the People Directorate had been very specific and related to a benchmarking review of the financial position and costs of Children's Services and there were no governance issues to consider.

The Executive Director of Resources (Section 151 Officer) responded to a number of concerns from Members in relation to the content of the AGS including LED lights, Fix My Street and staff appraisals. It was confirmed that reference to LJs would be removed from Appendix B.

The Executive Director of Resources (Section 151 Officer) explained that the outcomes identified on page 20 of the report formed part of the Performance Management Framework which was a set of indicators across the authority that worked their way through to giving overall assurance and overall performance management information in relation to the Shropshire Plan. In relation to a healthy

and happy workforce, this would be measured via sickness statistics, regular staff surveys etc.

A brief discussion ensued in relation to the move away from staff appraisals and toward personal development plans (PDP) and the Executive Director of Resources (Section 151 Officer) explained that PDPs would not just be about appraising how well staff had done in the previous 12 months, but also about understanding the development needs that would be necessary to resolve whatever that appraisal had told them. He explained that the focus of the Getting Leadership Right programme had been about setting that 'golden thread' through the organisation and creating a new personal development appraisal process that was being implemented and rolled out across the authority and as they were being completed, they were being recorded in ERP.

An update on progress in relation to the governance issues raised during the meeting was requested for the September meeting.

RESOLVED:

1. To note the content of the Annual Governance Statement 2022/23.
2. To note the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance.
3. To note the progress made on the actions identified in the 2021/22 Annual Governance Statement.

7 Second line assurance: Financial outturn report 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which provided details of Shropshire Council's 2022/23 financial performance for revenue and capital. The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He explained that the report had already been to Cabinet and would be going to Council in July and sat alongside the Statement of Accounts. The report provided a suite of information in relation to the financial position and the overall assurance that could be taken in relation to the last financial years' accounts and followed the format of the quarterly monitoring reports which were considered by Cabinet and Scrutiny.

The Executive Director of Resources (Section 151 Officer) informed the Committee that the Council had ended the financial year better than expected with an overspend of £8.5m, which was £1.5m better than previous estimates and although not ideal, showed that the underlying control framework demonstrated a strong grip on the projections for the Council's financial position which showed a strong governance approach and showed that the estimates being used were based on a solid foundation. He then drew attention to the appendices to the report which set out the detail of the under/overspends, levels of reserves etc.

In response to an earlier query, the Executive Director of Resources (Section 151 Officer) explained that reserves were used to cover any overspend in order to ensure

there was not a negative balance sheet. The overspend in 2022/23 had depleted the reserves significantly however that was the position as at 31 March 2023 and on the 1 April 2023 the new budget kicked in and as part of that there was an inbuilt allocation to the general fund balance which became £23m a day later.

In response to a query the Executive Director of Resources (Section 151 Officer) explained the approach taken to setting a balanced budget and what the consequences would be of not doing so, as set out in statute, including stopping all discretionary spending. The Government could also take over the running of the authority and could use special powers such as being able to use capital for revenue purposes, increasing Council Tax above the referendum level, in order to bring the budget back into balance, however that was extreme and had not happened in many cases and was not something that was considered relevant to Shropshire Council.

In response to a query, the Executive Director of Resources (Section 151 Officer) confirmed that the £51m savings was a base budget reduction, it was not about transferring money into reserves although there were a number of elements that had been transferred into reserves but fundamentally, the budget was built up around a plan based on assumptions around government funding and any increase in that government funding would be put into reserves. The £1.965m were the savings that were rated as Red and had been carried forward into 2023/24.

In response to a query in relation to whether the slippage in the capital programme had led to any savings in interest, the Executive Director of Resources (Section 151 Officer) explained that there would be a series of capital projects to be delivered in the year which often took a number of years to deliver however the Council did not constantly borrow money as it was spent but would look at the overall cash position and as some borrowing became due to be paid off, the Council would decide whether it required to borrow more money now or not. The Council had recently had a period of really high cash balances with no need to borrow. Moving forward however, if the capital programme was delivered in line with the assumptions, there would be no need to borrow unless the overall programme was expected to cost more, in which case Full Council would be asked to approve the additional expenditure.

The Executive Director of Resources (Section 151 Officer) explained that Shire Services had a trading account that had to balance to £0 every year however if they made a deficit in one year, they would have to make a surplus in future years to repay it. The deficit was therefore charged to the General Fund until due to be repaid by Shire Services to bring it back into balance over time.

The Executive Director of Resources (Section 151 Officer) explained that a review of the capital programme had been discussed by the Transformation and Improvement Overview and Scrutiny Committee. He informed the Committee that a briefing was being prepared and task and finish groups being set up over the summer to consider the capital strategy where a review of all the schemes would be undertaken. An update report was due to the Transformation and Improvement Overview and Scrutiny Committee in October/November to which all Members were able to attend and ultimately to Full Council for approval in March 2024.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained the updated financial management training being arranged for budget holders.

RESOLVED:

In respect of the revenue budget:

- a) Note that the outturn is an overspend of £8.499m.
- b) Note the consequent level of the General Fund balance is £7.093m.
- c) Note the service-related use of £33.192m of Earmarked Reserves & Provisions.
- d) Note that the combination of earmarked and un-earmarked (General) reserves is below a level that would be regarded as safe, taking into account local circumstances. The MTFS sets out an agreed plan to restore these balances to safer levels.

Relating to ringfenced funding:

- e) Note the performance of the Housing Revenue Account (HRA) – £0.768m (4%) surplus outturn for 2022/23 on £19m turnover, and the resulting level of the HRA reserve of £12.359m. The level of the accumulated surpluses held as a reserve should be reviewed and an appropriate action plan brought forward.
- f) Note that the level of school balances has increased by £2.296m, from £8.191m in 2021/22 to £10.487m. The level of accumulated net surpluses in schools' balances is considerable, and schools should identify the rationale for holding balances at those levels.

In respect of the capital programme:

- g) Approve net budget variations of -£4.007m to the 2022/23 capital programme (in Appendix 11) and the re-profiled 2022/23 capital budget of £111.112m.
- h) Approve the re-profiled capital budgets of £26.575m for 2023/234, including slippage of £10.747m from 2022/23, £110.787m for 2024/25 and £56.264m for 2025/26 as detailed in Appendix 15.
- i) Accept the outturn expenditure set out in Appendices 12 and 13 of £100.365m, representing 90.3% of the revised capital budget for 2022/23.
- j) Approve retaining a balance of capital receipts set aside of £17.465m as at 31st March 2023 to generate a one-off Minimum Revenue Provision saving of £0.572m in 2023/24.

8 Second line assurance: Approval of the Council's Draft Statement of Accounts 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which provided an overview of the Accounts for the year 2022/23 and details of the reasons for the most significant changes between the 2021/22 Accounts and the 2022/23 Accounts.

The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He drew attention to the table of deadlines and confirmed that the draft Accounts had been produced by the 31 May 2023, out of line with other Local Authorities who had not yet completed theirs. He explained that the External Audit work would take place between 19 June and 30 September by which time the

Accounts had to be published and the External Auditor would provide his opinion and certificate. Members of the Committee congratulated the team on all their hard work in producing the draft Accounts by the deadline and within two months of the year end.

The Executive Director of Resources (Section 151 Officer) explained that the Analytical Review (Appendix 2) set out the most significant changes between the 2021/22 Accounts and the 2022/23 Accounts ie a variance of either 10% or £8m.

In relation to reserves, a query was raised that in paragraph 2.3 of the report it stated that 'the Authority's earmarked reserves and provisions had decreased by £31.697m, however, on page 117 of the accounts under reserves, it said 'earmarked reserves have decreased by £37.05m'. In response, the Head of Finance Management and Reporting explained that paragraph 2.3 referred to 'Reserves and provisions' which included things like bad debt provision and other provisions they had to make during the course of the year, whereas the accounts refer specifically just to reserves.

A query was raised in relation to those area referred to in Appendix 2 as having decreased in income following removal of a Covid-19 uplift and whether there had been an increment in those grants based on eg 2018/19, or was there actually a reduction in 'real' terms based on the pre-covid period. In response, the Executive Director of Resources (Section 151 Officer) explained that covid funding was provided for specific purposes over a period of time however it was not ring-fenced and provided that the pressures added up to the amount that was provided, that was fine, however this meant that once the covid uplift was taken away you were suddenly exposed to the underlying issues leading to some areas shifting incrementally in a direction that was not so visible, given the covid funding and the uncertainty about how long the pandemic would continue and how long the funding would continue. During the budget setting process when those areas were considered, a decision was made to build growth into these areas because they had shifted in a different way that had been hidden.

Turning to page 149 of the draft Accounts, concern was raised that cashflow at the end of the period 2021/22 had dropped from £27m to £6m. In response it was explained that the cashflow statement referred to cash but also cash equivalents which included any short-term investments that was technically cash held by the authority, so the level was not as low as it appeared, and cash balances were still around the £100m level.

A query was raised in relation to the amount of debt/borrowing which appeared to be down from £521m to £491m and whether it was declining or was just an anomaly compared to where it was 3 or 4 years ago. In response, the Executive Director of Resources (Section 151 Officer) informed the Committee that levels of borrowing had generally fallen and that the only borrowing he was aware of during the last decade was for the Housing Revenue Account, it also included things like PFI and finance leases, but that the authority had not borrowed any money for general fund purposes for a decade. He went on to explain how the overall cashflow of the authority was managed and how funding decisions were made including the Treasury Advisor giving an overview on a monthly basis in terms of whether they felt that the Council was over/under borrowing. In response to a further query he confirmed that long-term debt was coming down and the debt that the Council did have was fixed so not exposed to interest rate changes. As these loans matured and were paid off a

question was asked whether to replace this debt but for the last decade this had not been replaced.

In response to a query about whether it would make monetary sense to repay any debt early due to the rise in interest rates or would there still be a charge. In response the Executive Director of Resources (Section 151 Officer) explained that the Council's Advisors kept this under consideration, and he agreed to check the position with them. However, if interest rates went up, this reduced cash balances so there was no point paying debt off to borrow at a higher rate.

The Executive Director of Resources (Section 151 Officer) answered a further query in relation to usable capital receipts reserve and whether this could be spent because of the savings that would be accrued. He explained that capital receipts could be used to fund capital expenditure and reduce the need for borrowing and it was explained why the position was zero. The Head of Finance Management and Reporting explained that usable capital receipts could be set aside and used against the MRP so rather than hold them in a reserve, that was how they were treated for the following year. The Strategic Management Accountant gave more detail and explained that it was an accounting adjustment that allowed the authority to make a revenue saving in the following year until the capital receipts were required to fund new expenditure.

Concern was raised that External Audit had not yet started their work on the Accounts despite them being produced by the deadline of 31 May 2023 and assurance was sought on whether External Audit would complete its audit in time for them to be published on 30 September 2023. In response, the External Auditor explained that the planning work for the 2022/23 accounts had been undertaken and they were awaiting some responses from the Council but that their formal plan would be presented to the July meeting of the Audit Committee. They were however hoping to get some testing underway prior to that. He explained some of the reasons for the delay including a resourcing issue which it was hoped would be resolved following the recruitment of a number of new starters. He felt that the substantive audit work would be completed by the end of September 2023 and he would be in a position to produce the Audit Findings report within two months of that.

Turning to the 2021/22 audit, this was substantially complete apart from an outstanding issue in relation to the biannual valuation of the Pensions Fund which may be materially misstated. He hoped to issue an opinion on the 2020/21 accounts by the end of the month. The Committee felt that as the Council had completed its accounts in time it should be given priority over others who had not done so, in response, the External Auditor explained that the work for Shropshire Council had been brought forward for that very reason and would be undertaken in the early tranche. He assured the Committee that they would work closely with the Council and possibly work on site in order to make some efficiency gains.

Members felt it was not acceptable that accounts going back to 2020/21 had not been signed off. In response the Executive Director of Resources (Section 151 Officer) expressed his concern that the authority was progressing into the 2023/24 financial year with the biggest savings plan the authority had ever had, and yet the basis on which that was set had no independent assurance. The External Auditor explained that the statutory framework required the accounts to be published by 30

September and if they were not completed then a note had to be included stating why the audit was not complete.

RESOLVED:

To note the content of the 2022/23 Draft Statement of Accounts.

9 Date and Time of Next Meeting

The next meeting of the Audit Committee would be held on the 20 July 2023 at 10.00am.

10 Exclusion of Press and Public

RESOLVED:

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.

11 Exempt minutes of the previous meeting held on the 14 February 2023

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 14 February 2023 be approved as a true record and signed by the Chairman.

Signed (Chairman)

Date: