Auditor's Combined Annual Report on Shropshire Council

2021/22 and 2022/23

July 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. Based on the timing of our audit procedures we have produced a combined commentary on the Council's arrangements for 2021/22 and 2022/23. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusions are summarised in the table below. In summary we found one significant weaknesses and there are 8 improvement recommendations detailed in further in report.

Criteria	2020/21 Audit Judgment	2021/22 and 2022/23 Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of Travel
Financial sustainability	No significant weaknesses in arrangements identified, but 3 improvement recommendations made.	Risks identified because of the Council's significant medium-term challenges	One significant weaknesses in arrangements identified and 4 improvement recommendations made.	Consistent with 2021/22.	↓
Governance	One significant weakness in arrangements identified and 5 improvement recommendations made.	No risks identified.	No significant weaknesses in arrangements identified, however 1 improvement recommendations made	Consistent with 2021/22.	↑
Improving economy, efficiency and effectiveness	No significant weaknesses in arrangements identified, but 1 improvement recommendations made.	Risk identified because of the inadequate rating issued by Ofsted in respect of children in care	No significant weaknesses in arrangements identified, however 3 improvement recommendations made	Consistent with 2021/22.	↔

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

The Council's revenue position has been continually challenged with overspends in 2021/22 of £2.1m, in 2022/23 £8.5m and an estimated £14.5m overspend in 2023/24. Council Earmarked Reserves and General Fund Balances have also reduced to levels of £52.6m and £7.1m respectively at 31 March 2023, which is relatively low for a council of this size.

The Medium Term Financial Strategy (MTFS) framework aids the Council in remaining agile to change as it is operating in an increasingly uncertain financial environment. For the fourth successive year, the Comprehensive Spending Review was a single year spending review. The Council's funding gaps for 2021/22 and 2022/23 covered through savings and use of reserves. The Council has assumed for both financial years that several Government funding streams would discontinue, which had overstated the challenges facing the council. The MTFS for 2023/24 has been based on more realistic assumptions but detailed several challenges including inflation, pay awards and increase demands on children and adult services. The recent (June 2024) outturn report noted that the Council had not achieved its savings target of £51.39m in 2023/24. It did identify that £41.8m of savings (81% of its target) had been delivered enabling the General Fund Balance (GFB) to increase slightly from the 2022/23 position, to £8.237m as at 31 March 2024. As a result, the proposed savings plan for 2024/25 has risen to £62.48m.

A contribution of £30.6m has increased the GFB to £38.8m from 1 April 2024. The Council has estimated this would only cover 78% of the estimated gross risks of £49.7m that the Council has identified. The Q1 report for 2024/25 is already forecasting a £29m overspend against budget and, as a result, a year end GFB balance of £9.8m. This will be a further small increase but significantly less than the £49m adjusted estimate for the target balance as set out in the February 2024 MTFS). This is alongside the significant risk surrounding the delivery of the Council's savings plans, especially in 2024/25 given that this is the largest savings target that the Council has had to deliver. We recognise that the Council has partnered with PWC in relation to its large and complex transformation programme. We are aware good progress is being made (the Council is reporting it has 76.9% of 20204/25 savings with plans or indicative plans in place) but due to the significance of these matters we have identified a significant weakness in the Council's arrangements with regard to its financial sustainability. We will continue to monitor the position as the final out-turns for 2023/24 are completed in June 2024 and consider if further reporting is required at that time.

Governance

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We raised one improvement recommendation.

We have reviewed the Council's internal control framework, financial management and budget setting, decision making processes , internal audit, risk management and standards monitoring processes. Overall, we were satisfied the Council has appropriate arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified an opportunity for improvement in relation to the transformation programme, particularly in relation to members visibility of the transformation programme, the actual cost of the programme and level of savings to be delivered.

Improving economy, efficiency and effectiveness

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We have raised three improvement recommendations.

The Council has arrangements in place to use performance information to assess performance. The Council takes a proactive approach to partnership working and identifying potential stakeholders to engage with. There are appropriate procurement arrangements in place. We have reviewed the Council's response to the report of the joint inspectorate of CQC and Ofsted in March 2020 and a reinspection reported in February 2023. The Council has made progress on 3 of the 6 significant weakness identified by the inspectorate and can demonstrate that, alongside partners, it has taken actions in 2021/22, and 2022/23. The council still has further improvement work to complete as highlighted in its Accelerated Progress Plan (APP) which was updated in November 2023 but we are satisfied this is not a significant weakness in arrangements. We have also identified two further improvement recommendations related to the Commercial Property portfolio and addressing internal audit recommendations associated with the North West Relief Road (NWRR) project.

2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 13 December 2023. Our summary findings are set out in further detail on page 32.

2022/23

We have completed our audit of your financial statements and issued an unqualified audit opinion on 26 February 2024. Our summary findings are set out in further detail on page 33.

Key recommendation

Significant weakness in relation to Financial Sustainability

(KR 1) Recommendation	The Council should continue with its re-consideration all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward: • Ensuring that Transformation programme associated costs and savings are transparent and reported to Members. • Review the level of savings of requirement in 2024/25 and ensure they are realistic, evidence based and supported by clear delivery plans • The identification and delivery of savings that reduce the indicative budget gaps in 2025/26 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets rather than optimistic ones that may not be achievable in practice. • Ensure the LGA Finance Peer recommendations are fully implemented • Ensure that there are alternative options identified to deliver a balanced MTFS in future years, reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) and, If required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders. • Ensure that Adults and Childrens Forecast Models are updated to reflect changes in demand and costs. • Ensure the LGA Finance Peer recommendations are fully implemented
Audit year	2021/22 and 2022/23
Why/impact	The forecast overspend for 2023/24 reduces the General Fund Balance to an unsustainable level of around £1.6m at 1 April 2024. As part of the 2024/25 budget, it is planned that £30.6m is contributed into the General Fund Balance but the Council has estimated this would only cover s 66% of the estimated gross risks of £47m that the Council has identified. This is alongside the significant risk surrounding the delivery of the Council's savings plans, especially in 2024/25 given that this is the largest savings target that the Council has had to deliver and in 2023/24 it is only forecasting meeting around 80% of its saving target when it need to deliver 95% to balance the budget. We recognise that the Council has partnered with PWC and is making significant progress in savings alongside its large and complex ambitious transformation programme but there remains a high level of risk within its proposals and reporting progress needs to be transparent and focussed on ensuring savings are delivered in the medium term. In conclusion we have identified a significant weakness in the Council's arrangements in relation to financial sustainability.
Management Comments	Transformation costs of £3.36m were reported within the 2023/24 Outturn Report and a budget for 2024/25 approved by Council of £6.2m, all funded from Capital Receipts. Delivery Plans are in place or being actively progressed for every savings proposal set out in the MTFS. The position for 2025/26 is being reviewed and is expected to be reported to Cabinet in July 2024 with an appropriate budget plan set out in December 2024. LGA Finance Peer Review recommendations are subject to regular review and reporting and are all accepted and delivered or part of on-going work. Demand forecast models are due to be completed in July and August.

The range of recommendations that external auditors can make is explained in Appendix C.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 29. Further detail on how we approached our work is included in Appendix B.

Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue any statutory recommendations.	We did not issue any statutory recommendations.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice.	We did not issue an advisory notice.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for a Judicial Review.	We did not apply for a Judicial Review.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Medium Term Financial Strategy (MTFS)

The Council has a robust MTFS process. It is a rolling document which is updated annually as part of the budget setting process and refreshed quarterly to detail significant changes to the Council's financial position.

The MTFS has been adapted to include both national [eg COVID, Cost of Living], and local issues such as flooding, recruitment and retention. For both 2021/22 and 2022/23 the Comprehensive Spending Review was a single year spending review. The MTFS for each of these years assumes local government funding streams such as the Better Care Fund (BCF), and the Rural Service Delivery Grant (RSGD) would be discontinued and have not been included in future projections.

As with most councils nationally, the Council faced immediate pressures around new legislation in social care, contractor/provider challenges, increased inflation in relation to energy costs, pay and recruitment issues. The MTFS demonstrates the Council understood the drivers of these pressures and had taken the necessary steps to mitigate them going forward.

The relevant MTFSs for 2021/22 and 2022/23 were presented to Council in February of 2021 and 2022 and confirmed the Council Tax calculation and legislative and policy changes impacting delivery of Council services. Further, the Council used a risk assessment approach in calculating the predicated level of General Fund Balance .

The two main drivers, and risk to the Council's ongoing Financial sustainability include:

- **Demographic increases:** The two most significant areas of pressure were Adult Social Care and Children's Social Care. The numbers of looked after children had increased post COVID 19 as has the complexity of need provided demographic pressures in 2021/22 and 2022/23. Post COVID there were an increasing numbers of children entering into social care, which led to other additional costs including additional social workers required to support the looked after children and increasing legal and court costs relating to legal cases of looked after children. The Council has specific models in place to identify the likely demographic pressures and associated costs.
- **Inflation:** The Council had a robust approach to calculating the impact of inflation. This included a risk assessment of the level of inflation, and impact of major economic factors such as BREXIT. The Council's MTFS identified significant spend with third party organisations to support the delivery of services, for example to Adult Social Care Providers, the Council's Waste Collection and Disposal Contractor and the Highways Maintenance contractor.

These contracts generally have inflation built into them and as expected were subject to significant price increases in energy during 2021/22, and 2022/23. Finance Business partners work closely with service managers to assess the Council's demographic and demand pressures as part of the annual growth modelling exercise. Manging service delivery in the light on continued inflationary pressures will be a continued risk to the Council.

2021/22 Planning and Performance

The MTFP for 2021/22 detailed a gross budget requirement of £615m, which included £15.5m of demographic and demand pressures, £5.7m of service specific pressures. In the robustness of estimates section of the MTFS, the S151 detailed that the savings identified in 2021/22 were based on raising income, innovation and cutting services. Some of the savings, whilst achievable, were ambitious and were monitored during the in-year quarterly budget monitoring cycle to consider the ongoing impact on the budget strategy.

The Council estimated demographic pressure to be £15.5m in 2021/22 and £12.3m for 2022/23, and inflationary pressures on pay to be a 2% increase for 2021/22 (£2.7m) and assumed a 2% for the next five financial years. Further The MTFS included £1.3m for contract inflation in relation to Adult Social Care Providers, the Council's Waste Collection and Disposal Contractor and the Highways Maintenance contractor and energy or petrol price increases.

The Council net spend was £211.2m against a budget of £208m. The outturn detailed a £2.5m overspend due in the main to Children's social care pressures in relation to staffing, agency staff, direct payments, leaving care allowances, internal residential home costs, and legal costs (c£4.0m). Temporary housing and housing benefits subsidy loss (c£1.1m),

Financial sustainability

Commercial investments unachieved savings and income (Shire Services, Corporate Landlord) (£1.6m), and unachievable Digital transformation savings (£2.5m). This was offset by one-off council wide underspends on staffing, supplies/services, use of grant funding and general fund balances (£6.5m).

It should be noted that the actual National Joint Council (NJC) pay award was 1.75% (£1.23m) during 2021/22, however like most there were increased pressures with the use of agency staff to backfill vacancies within the organisation.

It should be noted the council scaled back its capital programme in 2021/22 by more than £100m up to 2025/26 to help reduce borrowing costs from £16.1m to £5.7m. The Council had plans to deliver a £150.1m Capital Programme during 2021/22 (including £20.1m HRA). The programme was reprofiled to £83.6m over the year, to align with realistic delivery expectations.

Total capital expenditure for 2021/22 was £82.3m, which equated to 98.5% of the re-profiled capital programme of £83.5m. Capital receipts of £22.0m were brought forward from 2020/21 and £4.2m was generated in 2021/22. Due to the mid-year re-profile of the programme the Council had sufficient receipts to finance it without any corporate prudential borrowing.

2022/23 Planning and Performance

The Local Government Finance Settlement was again a one-year settlement which made long-term planning difficult. The 2022/23 budget was published in February 2022. The Council identified an underlying budget gap of £58m gap for 2022/23 which it proposed addressing through a combination of reserves (£9.9m), savings [£21.2m] and the balances from one off grants.

The Council was still impacted by the COVID 19 challenges, particularly around Hospital Discharge for Adults, and this was further exacerbated with Children Services pressures, increasing inflation, increased interest rates and supply chain challenges due to Brexit.

The Council estimated demographic pressure to be £12.3m for 2022/23. Further the MTFS estimated that the total cost of contract and price inflation was £3.2m and included 2% for pay awards.

The final outturn for 2022/23 detailed controllable net revenue expenditure of £223.1m and an overspend of £8.5m. The key factors affecting the year end position included:

Increased demand for Children's Services (£8.4m), Increased cost pressure in Adults' services (£5.4m), despite activity being at a similar level to previous years, it included clients with greater complexity and costs coupled with challenging hospital discharge arrangements thus incurring unanticipated costs.

Further income targets related to Commercial Services were not delivered (£4.1m), this consisted of £1.4m delay in achievement of planned efficiencies around administrative buildings, arising from the re-purposing of Shirehall and Mount McKinley House, and rent charges to the University of Chester for the use of the Guildhall. Further there was a £1.4m shortfall in Commercial Services savings, and £2.0m un-delivered commercial savings which included £0.934m pressure arising from inflationary increases.

As detailed in 2021/22, commercial and property services had budget pressures and it was unclear from the outturn reports the reasons, mitigations and/or remedial action that had been taken by the Council. We have suggested an improvement recommendation in relation to this.

These overspends in the main were mitigated by Corporate items such increased interest on cash balances (£2.1m), and cost of borrowing savings through reduced a borrowing requirement (£1.5m) and draw down of reserves and balances (£2.4m). The HRA had a surplus of £0.8m (4%) against a £19m turnover, and the closing balances of the HRA reserve was £12.4m.

These overspends in the main were mitigated by Corporate items such increased interest on cash balances (£2.1m), and cost of borrowing savings through reduced a borrowing requirement (£1.5m) and draw down of reserves and balances (£2.4m). The HRA had a surplus of £0.8m (4%) against a £19m turnover, and the closing balances of the HRA reserve was £12.4m.

Total capital expenditure for 2022/23 was £100.3m, which equated to 90.3% of the re-profiled capital programme of £111.1m. In relation to capital receipts the outturn report detailed significant potential shortfalls in receipt projections of £9.6m, £24.6m and £49.m in 2023/24, 2024/25 and 2025/26 respectively. The Council needs to carefully consider its capital programme given available capital receipts and review its current assets disposal programme.

The Council's financial performance worsened between 2021/22 and 2022/23. We noted the continued pressures on commercial investments, and the unachieved savings in relation to digital transformation. We have made improvement recommendations in relation to these.

LGA Peer Review

The Council invited the LGA to undertake a Finance Peer Review Challenge during 2022/23 to assist with the development of the 2023/24 MTFP.

The review reported in June 2022 that the scale of the financial challenge was significant, but the Council had the capability to address this and the tools required to deliver on its ambitions within a reduced financial envelope.

The LGA also considered that:

- the Council had been overly prudent in its assessment of the funding gap. The Council had assumed that the government would discontinue several vital local government funding streams without replacing them i.e. a worst-case assumption which other councils had not built into their central financial projections, but

Financial sustainability

- whilst the Council's reserves were not exhausted they were now lower than they should be for a council of this size and level of ambition and should not be relied upon to cushion underachievement of budget targets.

The LGA made 14 recommendations and the Council produced an Action Plan to address them.

2023/24 Financial Risk and Issues

The MTFS for 2023/24 was presented in February 2023 detailed the very challenging outlook for the council. The Council took on board the recommendations detailed in the LGA peer review, and as a result of the work of Cabinet and Officers during 2022, the Council reduced the total budget gap in its current MTFS forecasts to £9.2m. Whilst this is positive news, the budget was predicated on delivery £51.3m of service-based savings in 2023/24.

The 2023/24 Outturn Report demonstrated an overall overspend of £7.877m. The level of spending reductions delivery was £41.818m against a target of £51.390m. All unachieved savings (and savings delivered by one-off means) have been reviewed and incorporated into savings targets for the 2024/25 budget. In the Q1 2024/25 finance report projected savings delivery is currently estimated at £9.668m (15.47%) with a further £38.419m (61.49%) having at least indicative plans in place. Combined, this is a potential level of delivery of £48.087m (76.9%) against the savings target of £62.480m leaving a gap in excess of £14m, which the Council recognizes is not sustainable.

In February 2024 the Council published its updated MTFS for the period 2024/25-2028/29. The Council has concluded that alongside savings there are sufficient one-off funding proposals in order to balance the 2024/25 budget but that there is a growing cumulative budget gap of £48.97m to be addressed up to the end of the 2028/29 financial year (see table opposite).

MTFS budget gap 2024/25-2028/29

Year	Anticipated Budget Gap
2024/25	£0.00m
2025/26	£18.95m
2026/27	£12.02m
2027/28	£9.34m
2028/29	£8.66m
TOTAL	**£48.97m**

The level of contract inflation had increased significantly. To provide context, contract inflation historically has been approximately £2-3m, however for 2023/24 the Council was funding contract inflation up to £23.4m. As detailed the Council had taken steps to mitigate this through use of reserves and balances, however this has depleted reserves and balances which is discussed further in this report.

As detailed previously the main budgetary pressures has faced has been due to demographic increases and specifically growth in numbers of service users within Adult Social Care and Children's Social Care. Whilst the age profile of the population still shows a growing trend of people living longer, and hence potentially creating increased demand, particularly for Adult Social Care, in 2022/23 the Council has taken several steps to try to actively manage this demand for services.

This included a major refocus of activity on early intervention in order to attempt to prevent ill health and reduce the need for long term or hospital care. Also, within children's social care the Council is implementing its Steppingstones project which aims to reduce the spend on high-cost children and address the issues of children coming into care, again to prevent care placements being required.

Also, within children's social care the Council is implementing its Steppingstones project which aims to reduce the spend on high-cost children and address the issues of children coming into care, again to prevent care placements being required.

Total demographic pressures for 2023/24 were estimated to be £0.964m. We noted in out review the outturn for both Adults and Childrens was higher than assumed and we have made an improvement recommendation that the Council reviews its demographic models to ensure they are up to date and reflect the realistic position.

The Council's Capital Programme was heavily dependent on the Council generating significant levels of capital receipts. The 2022/23 outturn report details significant shortfalls in projected capital receipt of £9.6m, £24.6m and £49.m in 2023/24, 2024/25 and 2025/26 respectively.

Further there were risks that projects costed at current year prices will be subject to a tender processes after inclusion in the programme which could lead to a variance in the final cost. In some areas, the design brief have not been finalised, again giving potential risks in relation to price variance.

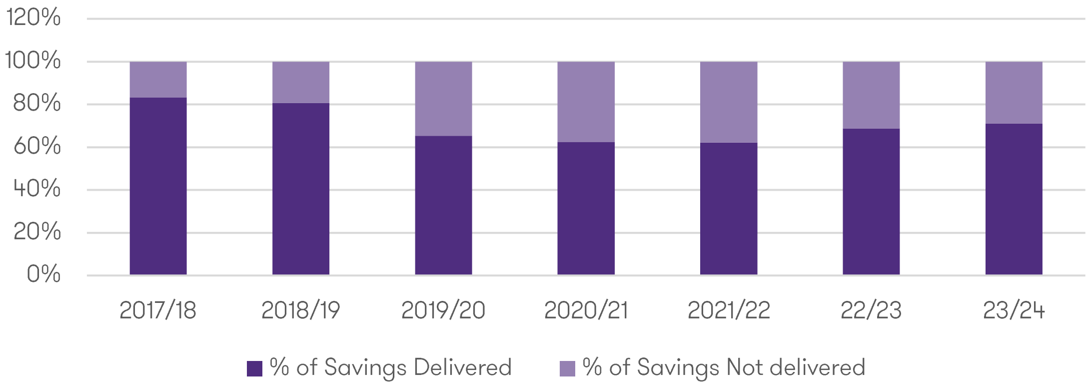
We have made an improvement recommendation in relation to Capital programmes. The Council must ensure Capital spend can be mapped to Corporate objectives, and can also support the Councils transformation programme, and delivery of its savings programme.

Financial sustainability

Performance on Savings Programme

Saving schemes are RAG rated and monitored monthly to determine progress on delivery. Savings delivery was monitored internally by Directors in regular meetings where the variances are challenged and scrutinised. We have analysed the Council's delivery of savings over the past seven years since 2017/18 (Table 1).

Table 1 Performance on delivering savings



During 2021/22 the Council's Savings target was £9.8m of which 62% (6.0m) was delivered leaving a shortfall of £3.8m. It was agreed in the 2022/23 MTFS that £2.0m of the £3.8m would be carried forward into the following year. During 2022/23 the council achieved 69% (£14.6m) of the £21.2m savings target set in the MTFS. Of the £6.6m un- delivered savings £4.6m was applied to growth funding in 2023/24 was applied in order mitigate the 2022/23 shortfall. As detailed previously in order the balance the 2023/24 position the council must deliver £51.39m of service-based savings. Based on the details in Table 1 the council has on average delivered 71% of savings over the period implying that £36.4m would be delivered. From the Outturn Report taken to the June Cabinet the level of spending reductions delivered is £41.818m against a target of £51.390m leaving undelivered savings of £9.572m which, alongside savings delivered through one-offs, have been reviewed and built into savings plans for 2024/25 where the Council has considered it appropriate.

As noted on page 10 projected savings delivery for 2024/25 is currently estimated at £9.668m (15.47%) with a further £38.419m (61.49%) having at least indicative plans in place. Combined, this is a potential level of delivery of £48.087m (76.9%) against the savings target of £62.480m leaving a gap in excess of £14m.

Use of Reserves, Provisions and General Fund Balances.

The General Fund balance held as at 1 April 2023 was £7m. This was significantly below the risk assessed level for 2022/23 which was £18.7m and leaves the Council vulnerable to any unexpected spending pressures that may arise in the future.

In relation to Earmarked Reserves the Council assumed in previous financial strategies that it would use earmarked reserves, particularly the Financial Strategy Reserve, to help balance the budget.

The total value Earmarked Reserves as at 1 April 2023 was £52.6m (excluding schools related reserves). This was a reduction of £37m in year from the opening balance of £89.6m. A significant proportion of the reduction related to the use of COVID funding (£ 14m reduction). Further, the Development Reserve which was for transformation projects reduced by £9.4m and the Financial Strategy Reserve (£7.0m) was fully applied in 2022/23 and no longer available for future years.

During 2021/22 and 2022/23 the Council detailed a risk based assessment of its General Fund Balances and noted that Research undertaken by CIPFA showed that, generally, upper tier councils hold a general fund balance of approximately 10% of the net revenue budget. Shropshire Council holds £7m with represents 3% of the Net Revenue Budget (£246.5m 2023/24). CIPFA recommend al General Fund Balance should be somewhere between 5% and 15% of their net revenue budget. This would range between £12.3m and £25m.

The Council achieved 81% of its budgeted savings in 2023/24, a shortfall of £9.572m. The quantum achieved is significantly more than in previous years and the percentage is above the previous delivery levels of between 60% and 80%.

We completed a comparison of Reserves and provisions with several high-tier unitary authorities. This is detailed in Appendix F and noted that Shropshire was in the lower quartile for comparable unitary authorities. We recommend that the Council builds plans into its future MTFS to replenish reserves and balances.

Financial sustainability

Transformation Programme

Given the scale of challenges facing the Council, its Cabinet and the Senior Leadership Team have embarked on a programme of work to optimise performance across Shropshire Council in a measured but transformative approach. The strategic transformation partner is Price Waterhouse and Coopers (PwC). It is anticipated that return on investment will significantly outstrip the funding ringfenced as work of the Strategic Transformation Partner will focus on delivering spending reductions of £50.1m due to be agreed by Council in March 2023 Delivery of Target operating Model (TOM).

The Transformation Programme sets out the ambitious plans for creating a new, single operating model which will help the Council achieve its strategic vision. Given the scale of the savings required, the Council needs to ensure it is transparent reporting on not only the costs of the program but also on the level of spending reductions and savings delivered.

The Council also needs to ensure it has sufficient capacity to deliver this ambitious programme, and that the programme can be mapped directly to delivering the Councils Strategic objectives.

Financial Sustainability and Strategic Objectives

In May 2022, the Council approved the Shropshire Plan which sets out its vision and key priorities for the coming years. This document aims to help shape where the Council prioritises its activities and remove or reduce work where this does not directly support the objectives of the plan. Alongside the Shropshire Plan, the Workforce Strategy sets out the key values of 'Getting It Right' (GiR) which is the Council's overarching approach for the long-term future of Shropshire

The MTFS and underlying budget reports do not however clearly demonstrate the cost of delivering core statutory services as distinct from discretionary areas of spend. Further all Revenue and Capital costs, growth and savings, and transformation costs and savings should map into the new Shropshire Plan. We have identified this as an improvement recommendation.

The Council has a robust appraisal process to consider all capital investment proposals with the underlying requirement that all decisions taken are affordable. The Council's Asset Management Strategy, Economic Growth Strategy and Commercial link together with the Capital Strategy and Treasury Strategy to enable the Council to take long term decisions in a considered manner. The Council again should ensure that these documents have a clear link to delivering the Council's strategic priorities.

Financial Sustainability and Risk

We noted the Council previously undertook a risk assessment in calculating the proposed level of General Fund Balance to hold. This approach considered strategic, operational and financial risks that the authority was facing. It included funding or the council's ability to deliver savings, the effectiveness of budget monitoring to identify variances from spending plans and trigger timely remedial action, the availability of other funds to cover costs – for example, from an insurance policy, or from the government under the Bellwin Scheme for emergency built into individual departmental budgets and the council's overall budget position. We note that this risk Assessment was undertaken in 2021/22 and 2022/23 but was not detailed in the 2023/24 MTFS.

2023/24 and 2024/25 Update

In February 2024 the Council published its updated MTFS for the period 2024/25-2028/29. This recognises that the financial outlook for the Council is exceptionally challenging, with the key pressures arising from inflation (both pay and price) and demand for social care support (including, but not limited to, older and working age adults, children and younger adults, those in need of housing support and temporary accommodation). The proportion of the Council's net budget allocated to Social Care is now estimated to be 74% for 2024/25.

The Council reported its unaudited revenue position for 2023/24 to Cabinet in June 2024, noting it has:

- a variance of £7.302m against net spending representing 1.21% on the gross budget or 2.85% of net budget
- delivered £41.818m savings (81% of its target). This is the highest by both value and percentage it has ever achieved.
- improved the overall financial variance when compared to that projected at Quarter 3 by £6.656m (projected £14.533m overspend in Q3 compared to the final £7.877m)
- delivered a smaller overall overspend than delivered in the previous financial year (£7.877m compared to £8.499m)
- increased the General Fund Balance has increased compared to the previous year (£8.237m compared to £7.093m, with plans to improve this position again in 2024/25)
- reprofiled the capital programme over the year to align with revised delivery expectations to £100.012m. Outturn capital expenditure for 2023/24 is £92.339m, representing 92.3% of the re-profiled budget. All £7.673m of the underspend has been carried forward to the 2024/25 programme.

Financial sustainability

The improved outturn position for the general fund balance will be carried forward to the new year. The MTFS approved by Council allowed for a further contribution of £30m to be made in 2024/25, creating a total budgeted general fund balance as at 1 April 2025 of £38m. This is an improvement on the position for 2023/24 but remains below the risk-adjusted estimate for the target balance (£49m – as set out in the February 2024 MTFS) and the advised minimum of £15m. The Council is therefore of the view that the levels of reserves cannot yet be considered as safe.

The Council has, for the first time, published a finance report for Period 1 of 2024/25. The key issues highlighted are:

- Projected savings delivery is currently estimated at £9.668m (15.47%) with a further £38.419m (61.49%) having at least indicative plans in place. Combined, this is a potential level of delivery of £48.087m (76.9%) against the savings target of £62.480m leaving a gap in excess of £14m, which the Council recognizes is not sustainable.
- A forecast spend variance over budget of £29.006m. The initial budgeted General Fund Balance at the end of 2024/25 was £38.821m as a result of combining the brought forward balance of £8.237m with the budgeted contribution to balances of £30.584m. The forecast spend variance of £29.006m results in a general fund balance at the end of the year of £9.815m. This is a small increase on the 31 March 2024 position but is not enhancing the resilience of the Council to financial shocks or developing risks. It suggests that savings plans are likely to need to go further and longer.

The approach to planning the budget for 2024/25 has been guided by several key principles:

- prioritising transformation and efficiency interventions, then
- considering the scope to raise additional income in different service areas, and then
- considering how spending can be reduced both within the Council's supply chain and within its staffing base.

During 2023/34, PwC have been engaged by the Council as a delivery partner, providing additional capacity and sector-wide insight into delivery of local authority services. The Council is proposing £62.48m of savings in 2024/25 (approximately £56m recurrent spending reductions and £6m on-going demand mitigations) and further savings of £11.71m in 2025/26.

Category of Saving	2024/25	2025/26
	£m	£m
Reduce Cost Savings	39.51	4.08
Target Operating Model Savings	0.73	2.13
Manage Demand Savings	6.77	0.43
Charge More Savings	2.02	0.00
New Income Savings	8.69	1.62
Stop/Cease Services Savings	4.76	3.45
Total Savings Proposals	**62.48**	**11.71**

The Council has concluded that alongside these savings there are sufficient one-off funding proposals in order to balance the 2024/25 budget but that there is a growing cumulative budget gap of £48.97m to be addressed up to the end of the 2028/29 financial year.

Conclusion

The Council's revenue position has been continually challenged with overspends in 2021/22 of £2.1m, in 2022/23 £8.5m and £7.3m in 2023/24.

Council Earmarked Reserves and General Fund Balances (GFB) reduced to levels of £52.6m and £7.1m respectively at 31 March 2023, which is relatively low for a council of this size. The GFB at 31 March 2024 has been estimated to have increased slightly to £8.2m.

The 2023/24 MTFS detailed several challenges including inflation, pay awards and increase demands on children and adult services. The 2023/24 Outturn Report demonstrated an overall overspend of £7.877m. The level of spending reductions delivery was £41.818m against a target of £51.390m. All unachieved savings (and savings delivered by one-off means) have been reviewed and incorporated into savings targets for the 2024/25 budget. As a result, the proposed savings plan for 2024/25 has risen to £62.48m.

A contribution of £30.6m has increased the GFB to £38.8m from 1 April 2024. The Council has estimated this would only cover 78% of the estimated gross risks of £49.7m that the Council has identified. The Q1 report for 2024/25 is already forecasting a £29m overspend against budget and, as a result, a year end GFB balance of £9.8m. This will be a further small increase but significantly less than the £49m adjusted estimate for the target balance as set out in the February 2024 MTFS).

We recognise that the Council has partnered with PWC and is making significant progress (the Council is reporting it has 76.9% of 20204/25 savings with plans or indicative plans in place) but even given the Council's improved track record of delivering savings this is an ambitious target. Further, there is a large and complex ambitious transformation programme which needs to be transparent and focussed on ensuring savings are delivered in the medium term.

In conclusion we have identified a significant weakness in the Council's arrangements in relation to financial sustainability. We will continue to monitor the position as 2024/25 progresses and consider if further reporting is required.

Improvement recommendations

Financial sustainability (Improvement Recommendations)

(IR 1) Recommendation 1	The Council should ensure that Medium-Term Financial Strategy (MTFS) is aligned with the Shropshire Plan and distinguishes between statutory and discretionary spend, and aligns to Corporate Priorities and the Shropshire Plan.
Audit year	2021/22 and 2022/23
Why/impact	We found in our review the lack of alignment of the MTFS to the objectives detailed in the new Shropshire plan. This will enable the Council to measure the cost of delivering council wide objectives and the impact of Growth and Savings requirements directly on delivering corporate outcomes.
Management Comments	The principle is accepted, and every effort has been made to ensure the MTFS does not contradict The Shropshire Plan (TSP) in the short term. TSP will be refreshed in the next twelve months. The MTFS is expected to develop as the short-term financial survival of the Council is delivered and consideration of a more sustainable financial future can be reflected in TSP.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability (Improvement Recommendations)

(IR 2) Recommendation 2	The Council should ensure that the action plan in relation to the Local Government Association (LGA) Finance Peer Review is fully completed.
Audit year	2021/22 and 2022/23
Why/impact	We found in our review that LGA peer review on the Councils Finances detailed several recommendations, including the Council clearly setting out the realistic budget challenges facing the council over the MTFS period, and ensure the council takes ownership of them through its own actions rather than relying on the Portfolio Government. The Council has developed and published an Action Plan on its website but it needs to be updated and progress appropriately reported.
Management Comments	The LGA Finance Peer Review Action Plan is reviewed regularly and all recommendations completed or in progress. Progress will be reported as requested by Members.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability (Improvement Recommendations)

(IR 3) Recommendation 3	The Council should ensure it has sufficient Capital receipts to fund is Capital Programme. Further it is critical that council robustly scrutinises any proposals to take on additional debt and ensure it is affordable, prudent, and sustainable.
Audit year	2021/22 and 2022/23
Why/impact	In our review we found the 2022/23 outturn report detailed significant potential shortfalls in capital receipt projections of £9.6m, £24.6m and £49.m in 2023/24, 2024/25 and 2025/26 respectively.
Management Comments	Capital Receipts are regularly reported as part of Financial Monitoring Reports to Cabinet. Monthly reporting for 2024/25 will include updates on capital receipt delivery.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability (Improvement Recommendations)

(IR 4) Recommendation 4	That both Adults are Children service demographic models are updated to consider changes in costs and inflation pressures plus the latest outturn and activity figures.
Audit year	2021/22 and 2022/23
Why/impact	We found in our review that despite models being used to predict outturn on both Adults and Children Services for the MTFS, the outturn position was significantly more adverse than the assumed in the budget for 2021/22 and 2022/23.
Management Comments	Detailed demand management models are in development and expected to be completed and used as the basis for future monitoring from July/August 2024.

The range of recommendations that external auditors can make is explained in Appendix C

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Leadership and Strategic Direction

The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are five scrutiny committees which hold the Cabinet to account. This is an appropriate structure for the Council.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture

All reports presented by the Council set out a responsible officer, including their contact details for any queries or follow-up. The cover sheet has standard sections on Risk Assessment and Opportunities Appraisal, Financial Implications and Climate Change Appraisal for decision makers to consider. In our view, this could also include legal/regulatory implications, and this will be suggested as an improvement recommendation. During 2021/22, there has been visible and approachable leadership.

More communication channels were made available and used by all to communication management decisions - these include a weekly Chief Executive update to all staff, weekly Divisional management team (DMT) meetings, weekly Service Managers team meeting, regular team meetings and 1-2-1 sessions and se of computer lock screen to disseminate key messages.

More communication channels were made available and used by all to communication management decisions - these include weekly Chief Executive update to all staff, weekly Divisional management team (DMT) meetings, weekly Service Managers team meeting, regular team meetings and 1-2-1 sessions and se of computer lock screen to disseminate key messages.

In May 2022, the Council approved The Shropshire Plan (TSP) which sets out its vision and key priorities for the coming years. This document aims to help shape where the Council prioritises its activities and remove or reduce work where this does not directly support the objectives of the plan. Alongside the Shropshire Plan, the Workforce Strategy sets out the key values of 'Getting It Right' (GiR) which is the Council's overarching approach for the long-term future of Shropshire. The aim is to ensure budget issues are addressed and solutions developed with the top 250 managers.

Further, the Workforce Strategy which was refreshed in July 2022 and includes the following themes:

- Growing for the future: Attract, Recruit & Retain, Apprenticeships & Career Pathways, Workforce Planning
- New Ways of Working: Agile & Mobile Working
- Belonging in the Council: Equalities, Diversity & Inclusion, Leadership Development, Management Essentials
- Looking After Our People: Health, Wellbeing & Resilience

Risk management

The Council's Opportunity Risk Management strategy is reviewed and updated on an annual basis, it was last reviewed and signed off by the Chief Executive on January 2022. The Strategy details the methodology used throughout the council for all risks - strategic, operational and project. The Risk Profile & Action Plans for managing risks are embedded in the Council's Risk Management SharePoint system.

Governance

All strategic risks are live documents where risk owners and additional control owners have full access for reviewing and updating regularly. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes. As at Feb 2022. As there were 18 strategic risks on the strategic risk register, each managed by specific Executive Directors. There are quarterly updates where all of the risks are discussed with the risk owners and a report is submitted to Executive Directors and Informal Cabinet. Operational risks are reviewed bi-annually. reports on current status are provided to all Heads of Service / Assistant Directors and the Executive Directors. This includes details of any key changes in risk exposure and any areas of concern. Emerging operational risks, or themes, feed into and are considered as part of the strategic risk review. There are currently 150 operational risk registers in place across the authority containing 1,634 risks in total.

For every new project that commences a risk register is established and held within SharePoint. Risks are allocated to appropriate project board members for management and review.

The direction of travel for projects is monitored to ensure that risks are well managed. Robust business continuity management arrangements also exist within the Council, with enhanced business continuity management arrangements which now include tactical plans for HR, Finance, Adult Social Care and Children's Services (the latter two as a result of Covid-19). These plans provide a corporate approach across these areas to manage significant business interruption events. All of these plans will be subject to review following the recovery from Covid-19. The Council's understanding of and planning for risks appears sound and does not demonstrate a risk of a serious weakness.

The Council's approach considered the strategic, operational and financial risks that the authority is facing. This included, for example, changes in external funding or the council's ability to deliver savings.

Internal Audit

The Internal Audit Service operate under a standard charter as required by Public Sector Internal Audit Standards and provide risk management, internal audit, advice and investigatory services to the Council. They review and give assurance on the controls in place to manage the key risks facing the Council. To do this, a programme of audits are devised which are discussed and agreed with the relevant stakeholders before the start of each financial year. The aim of each audit is to give an independent and objective opinion to managers on the adequacy of controls in place to manager risks within services. A report is issued for every audit which documents the findings and incorporates an action plan which has been agreed with the relevant manager to address any weakness.

There is an adequate and effective internal audit function which assesses and measures the effectiveness of the internal controls. In total, 47 final reports were issued in 2021/22, 41 with audit assurances provided and 6 with self-assessments in fundamental system areas which were completed by managers and reviewed by a Principal auditor. Despite some slippage due to staff availability during the pandemic and the effects of remote working, this performance represented successful delivery of over 90% of the revised plan. Audit reports are presented at audit committee and regular update reports were provided on internal audit's progress against the 2021/22 plan.

Governance

During 2021/22 total of 389 recommendations were made in the 47 final audit reports issued in the year; these were broken down by audit area and have been reported in more detail in performance reports to the Audit Committee throughout the year. The percentage split of recommendations remains roughly the same as 2020/21 with 48% significant and fundamental recommendations in comparison to 49% last year, with a corresponding increase in requires attention recommendations.17% (8) of audit opinions were unsatisfactory, 3% (10) were fundamental and 45% (177) were significant whilst 52% (201) required attention. It should be noted that the number of audits has reduced from 72 in 2019/20 to 47 in 2021/22.

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. Fundamental recommendations will continue to be progressed within the agreed time frame with the lead Executive 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. All agreed fundamental recommendations will also 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. 30 good and reasonable assurances were made in the year accounting for 64% of the opinions delivered. This represents a 7% increase in the higher levels of assurance compared to the previous year, offset by a 7% decrease in limited and unsatisfactory opinions. Overall, the Head of internal Audit (HOIA) provided limited assurance and that the Council's framework for governance, risk management and internal control was sound and working effectively.

Attendance at Audit Committee demonstrates that members provide sufficient challenge and scrutiny of officers. Further, the rates of attendance improved from 69% to 87% between 2021/22 and 2022/23 however the number of meetings reduced from 7 to 5.

Anti-fraud, bribery and corruption

The Council has a counter fraud, bribery and corruption framework which defines the approach to managing the risk of fraud, bribery and corruption across the organisation and ensures that best practice is promoted across all services, projects and partnerships.

During 2021/22, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI), and several internal audit reviews were conducted to ensure appropriate controls are in place and are operational to counter the risk of fraud. This focused primarily on Covid grant awards and data analytics activity to cleanse data. The Council have a whistleblowing policy detailing what whistleblowing means, how to raise a concern, the associated confidentiality and anonymity in place to encourage this where there are genuine concerns and how the Council will respond to these claims. Finally, the Council have a Code of Conduct which is set out in the Council Constitution. This policies are updated annually and presented to Audit Committee.

Budget Setting Process

The budget setting process is driven internally by the Finance Department and the Executive Director of Resources. This is accompanied by a suite of documents that feed into the exercise which document cost and demand pressures and capital implications for example.

The compilation of the budget strategy involves detailed budget development of each service area within the Council. Work begins on this process from September onwards. The overarching five-year strategy runs alongside the budget strategy work and will be informed by significant service changes, demand changes and demographic changes that the Council is facing but, often more significantly, will be informed by government announcements on the likely level of funding. The draft budget is then subject to consultation with a range of stakeholders including the general public. Feedback from this consultation helps inform the final Medium Term Financial Strategy (MTFS) that is agreed by Full Council in February. There is also a quarterly review of budget to outturn position by Cabinet.

The budget and MTFS are considered concurrently. but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by Cabinet quarterly. This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary Control

The Finance Department engages at least monthly with budget holders and all managers have an allocated member of the Finance Business Partner Team who takes them through monthly forecasting procedures and budget management expectations. Budget monitoring reports summarise the overall position of the Council, variances to revenue and capital budgets both favourable and adverse, the reasons for these and the anticipated impact on the final outturn. As well as quarterly budget reports to Cabinet, a dashboard of financial performance is shared and discussed at each management team meeting.

Governance

During 2022/23 there was effective budget monitoring to identify variances from spending plans and trigger timely remedial action; the availability of other funds to cover costs for example, from an insurance policy, or from the government under the Bellwin Scheme for emergency financial assistance; and the extent to which contingency is built into individual departmental budgets and the Council's overall budget. The budget reports clearly identified the need to build up the Council's reserves to support uncertainty in the short and medium term.

The Council implemented a Power BI reporting tool, which generated dashboards that include profiling and tracking of spend and savings. We assessed this to be a considerable improvement in the Council's budgetary control arrangements.

Monitoring and ensuring appropriate standards

The annual governance statement was compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks. In our discussions with the monitoring officer there was no evidence of significant non-compliance with the Council's constitution, and no breaches of legislation or regulatory standards that have led to investigations by any legal or regulatory body.

Procurement

Where the body procures or commissions services, its arrangements adequately cover procurement and commissioning. Procurement and commissioning principles are embedded in the services (source interviews) The latest Procurement strategy details the Core principles underlying the procurement being Value for Money & Cost Savings , Local Economic Sustainability Collaboration, Social Value Considerations ,Category Management, Supplier Engagement ,Standardised methods of procuring, Transparency and Accountability, and Probity.

Decision Making

Whilst there is no evidence of decision making that is unlawful, or could lead to significant loss or exposure to significant financial risk, or reputational risk such as conflicts of interest, it should be noted that on 1 March 2023 campaigners won a Supreme Court appeal against the building of homes on parkland in Shropshire. Judges ruled the plot at Greenfields, Shrewsbury, wrongly sold to developers by Shrewsbury Town Council in 2017, should remain for recreational use. It means planning permission for 15 homes granted by Shropshire Council has been quashed.

Transformation Programme

The Council's Cabinet and the Senior Leadership Team have embarked on a programme of work to optimise performance across Shropshire Council in a measured but transformative approach. The start of this process was to agree a strategic plan for the Council (i.e. The Shropshire Plan (TSP)) and this was approved by Full Council in May 2022 incorporating the Vision 'Shropshire Living the Best Life'. The strategic transformation partner is PWC. It is anticipated that return on investment will significantly outstrip the funding ringfenced as work of the Strategic Transformation Partner will focus on:

- Delivery of MTFS spending reductions of £50.1m due to be agreed by Council in March 2023
- Delivery of Target Operating Model (TOM) proposals not individually included within MTFS (approximately 30 projects)
- Alignment of available funding with a resized and refocused local authority as recommended by LGA Finance Peer Review in 2022
- Alignment of resources around delivery of strategic objectives set out in TSP with particular focus on the Healthy Organisation priority.

However, in our review it was unclear as to members visibility of the programme. Further it was unclear as to the associated costs and the links between the transformation programme and the ambitious savings program required to be delivered in 2023/24 and onwards.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified an opportunity for improvement in relation to the transformation programme, particularly in relation to members visibility of the transformation programme, the actual cost of the programme and level of savings to be delivered.

Improvement recommendations

Governance (Improvement Recommendation)

(IR 5) Recommendation 5

The Council should ensure:

- the cost and funding of the transformation programme is transparent
- savings due to transformation are clearly distinguished from operational savings and clearly reported, and
- transformation costs and savings are clearly mapped to the Shropshire Plan, and clearly detailed in the MTFS.

Audit year

2021/22 and 2022/23

Why/impact

We found in our review, whilst the transformation programme is clearly embedded across the Council, the total cost of the programme, and financing, as well as the profile of savings was not clearly detailed and visible. Given the extremely challenging financial outlook for the council we recommend the programme is clearly reported throughout the Council. We have noted in the latest MTFS that costs of the Council's improvement Partner (PWC) will be capped at 10% of savings delivered and savings are been articulated as described on Page 14 but embedding this regularly and consistently within budget reporting will be key to the Council monitoring successful delivery.

Management Comments

Costs and funding for the transformation partner were reported in the 2023/24 Outturn Report and subject to review by Scrutiny Transformation Task and Finish Group.

The range of recommendations that external auditors can make is explained in Appendix C

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

SEND Joint Inspection

Reports from regulators are considered by the relevant Service Management Team, Directorate leadership Team and Corporate Board. An action plan is developed where feedback identified weaknesses in services.

In our 2020/21 Annual Auditor's Report we noted the progress the Council was making in addressing recommendations from a joint SEND (special educational need and/or disability) inspection of the local area of Shropshire undertaken by Ofsted and the Care Quality Commission (CQC) to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. We reproduce relevant paragraphs below.

The outcomes of the inspection were published in May 2020. The inspection letter identified six significant areas of weakness in the area's practice. The report also identified many strengths including the positive education outcomes for Shropshire children and young people with an Education, Health and Care Plan (EHCP) that attend mainstream schools and colleges; the pathways that are in place to identify and meet the needs of younger children; some of the services that are provided to children and families such as portage, sensory inclusion service, the severe speech and language impaired children's team and community children's nurses.

As a result of these findings, the Chief Inspector determined that the local area was required to produce a Written Statement of Action (WSoA). In response Shropshire Council, Shropshire Clinical Commissioning Group (CCG) and the Parent Carer Council (PACC) worked together to develop to co-produce documents that identified how all partners would work together to address the concerns identified during the inspection. A Statement of Intent was published in July 2020 and the WSoA was published in November 2020. A strategic board was established of key partners to monitor and implement the WSoA.

There was a re-inspection in November 2022 (reported in January 2023) which concluded that the area had made sufficient progress in addressing three of the significant weaknesses identified at the initial inspection but had not made sufficient progress in addressing three other significant weaknesses (see Table opposite). However, Ofsted and CQC confirmed they would not carry out any further revisit unless directed to do so by the Secretary of State and it was for the Department of Education (DfE) and NHS England to determine the next steps.

Significant Weakness January 2020	Sufficiently addressed November 2022
1. Inconsistent strategic leadership and weak strategic planning across the area, most notably in the CCG, including the ineffective use of data to accurately commission and plan services.	✓
2. The lack of inclusion of health services' input into the area's SEND action plan.	✓
3. Significant wait times for large numbers of children and young people on the ASD and ADHD diagnostic pathways.	✗
4. Significant waiting times for those needing assessment and treatment from the speech and language therapy service.	✗
5. Inconsistency in the quality of input from education, health and care into EHC assessment and planning.	✗
6. The high rate of exclusions for children and young people with an EHC plan and the high rate of repeat fixed-term exclusions for those receiving SEND support.	✓

Improving economy, efficiency and effectiveness

SEND Joint Inspection (continued)

The Council, along with its partners, published a final Accelerated Progress Plan (APP) in April 2023 with actions and milestones to address the three areas found not to have sufficient progress by CQC/OFSTED (Items 2, 3 and 4 above). The six-month review published in November 2023 noted that many actions had been completed or on track for completion. However, whilst none were judged to have a low risk of completion there were a number where the original completion date had been pushed back.

The Council and its partners can therefore continue to demonstrate it is making progress to address weaknesses identified by inspectors but there remains work to be completed. On this basis we continue with our conclusion that this is not a significant weakness in arrangements that requires a Key Recommendation but have rolled forward our previous Improvement Recommendation that the Council should continue to work with its partners to fully address the remaining weaknesses. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.

Performance monitoring

The Council undertake quarterly budget monitoring which reports performance to plan and analyses any significant variances in both revenue and capital spend which have arisen. The nature of the medium-term financial strategy (MTFS) is such that this is a rolling plan and is therefore refreshed on an annual basis to incorporate changes in demand or key underlying assumptions.

Alongside this, the Council also monitor qualitative performance, with Quarterly Performance Reports produced which presents the Cabinet with the Council's Performance against seven key outcomes. Each of the seven outcome areas contains several sub-outcomes with a range of associated performance measures or milestones. Reports show direction of movement and refer to the Council's performance portal – 'in phase' where further detail including trends can be found.

There are multiple internal audits conducted throughout the year which allows the body to gain assurance over the accuracy of financial and performance data. Benchmarking charts are produced which can be found on the website. This compares costs and performance data against other local councils. It is clear from the MTFS that the Council uses the data to identify areas of strength and areas for improvement.

Consultation

The Council has a proactive Business Board which it services and engages with on key initiatives and policies. A multi-agency high cost placement funding panel with Children's Services, Education Services and the Clinical Commissioning Group (CCG) is established to manage high-cost placements efficiently. There is a Local Resilience Forum (LRF) which is supported throughout the Council, including at Chief Executive level, through which work is undertaken with the community and multi-agency partners to ensure a robust response is possible for any emergency, this has been key to managing the response to Covid-19.

Public Health has been at the forefront of engagement with all stakeholders during the pandemic. An engagement board has liaised with members and community leaders, with continued engagement through the Health and Wellbeing (HWB) and Partnership Forums. Local leaders have also been brought together in areas of high cases or in outbreak situations. Other work streams such as the Drug and Alcohol Strategy, Joint Strategic Needs Assessment and Weight Management work are centred around good engagement.

Annually the public is consulted on several projects. The full list of consultations undertaken is available on the Council website which is well utilised and where required consultations are extended to allow for any local concern that is raised. . Officers from several areas have continued to receive and respond to multiple enquiries from communities, residents and businesses following the impact of flooding and Covid. Web services are increasingly used to provide updates to common enquiries and roll out self-service channels, such as Revenues and Benefits products; business grant applications; Adult Social Care in promoting self-service and ensuring that information is accessible and relevant to meet service needs. Shropshire Choices has provided information about a wide range of sources of help and support, including independent financial advice and information about care homes and housing options.

Partnerships

Many Council services are delivered through partnerships with other organisations such as the Local Strategic Partnership, Fire Service, Star Housing, West Mercia Energy, Shropshire County Pension Fund, town and parish councils and voluntary bodies and trusts.

The Annual Governance Statement for 2021/22 details the Council's key partners. The Council engages positively and sets out to work in a collaborative open partnership approach with several strategic partners including Central Government departments (Cities and Local Growth Unit, Homes and Communities Agency) and neighbouring local authorities. It is a non-constituent member of the West Midlands Combined Authority; has a proactive Business Board which it services and engages with on key initiatives and policies, which in turn has informed the Local Economic Growth Strategy. The management of One Public Estate continues with other public-sector partners.

Improving economy, efficiency and effectiveness

A multi-agency high-cost placement funding panel with Children's Services, Education Services and the Clinical Commissioning Group (CCG) is established to manage high-cost placements efficiently. Engagement has been and continues to be a key part of strategic partnership and statutory boards, including Shropshire's Integrated Place Partnership and the Health and Wellbeing Board (HWBB). For example, the Joint Strategic Needs Assessment is underpinned by engagement work with key stakeholders and this assessment informs the work and priorities of the HWBB. The team also prioritises strategic engagement with national bodies including, Health Foundations and universities, etc to inform its approach.

The Local Government Association (LGA) have undertaken several Peer reviews within the council. Of note was the Finance Peer Challenge in June 2022. The Peer review noted that efficiencies of £51.4m required in 2023/24 was extremely challenging with the council having little room to manoeuvre given the low level of reserves, it concluded that 95% of savings must be delivered to ensure the councils financial sustainability.

In October 2022, the LGA provided a commentary on the budget position for Children's services within the wider council position along with key financial and performance benchmarks for children's social care and other education services in order to identify possible areas which may assist the Council in improving value for money. The review concluded that children's social care in Shropshire been consistently allocated a lower proportion of available resource, though it increased significantly in the 2022/23 Budget 2022/23 but remains below average.

The LGA communications review (July 2022) followed an LGA Finance Peer Challenge, which made clear that the council 'needs to demonstrate it is confident, capable and sustainable to strengthen its reputation and thus the case for additional investment'. The review was clear that this message was understood and reflected in the council's ambitions for its approach to communications going forward. The report concluded that there was a widespread recognition that communications had improved over the last 18 months. The appointment of a new Head of Communications and Engagement was widely viewed as having helped in this regard. The communications team was respected, experienced and approachable.

It was seen as having stepped up not just to the challenge of the pandemic, but also to flooding which affected the county and significant projects such as the rollout of new recycling bins.

However, the report detailed there were significant communications skills gaps which need to be plugged across the organisation. Communications in Shropshire was also being hindered by a lack of coordination and a disjointed approach in places. This reflected a historic lack of investment in communications and a failure to see it as a priority, as well as a 'go it alone' silo approach in some areas. The report made 16 key recommendations for improvement.

Marches Local Enterprise Partnership

In the 2023 Spring Budget the Government stated that it was minded to withdraw central support and transfer responsibility for local economic development from Local Enterprise Partnerships (LEP) to local authorities by April 2024. The Department for Levelling Up, Housing and Communities, and the Department for Business and Trade will now consult on the proposals before confirming a decision. Shropshire Council is the accountable body for the Marches LEP and work remains ongoing to clarify future funding and delivery arrangements. We will continue to monitor the progress of the Council in this area and consider any future steps taken.

Procurement

Procurement and commissioning principles are embedded in the services. The latest Procurement strategy details the Core principles underlying the procurement strategy are Value for Money & Cost Savings , Local Economic Sustainability Collaboration, Social Value Considerations ,Category Management, Supplier Engagement ,Standardised methods of procuring, Transparency and Accountability, and Probity.

Reporting continues to Executive Directors through the Commissioning and Assurance Board which seeks contract assurance information and evidence of managing small and medium enterprises, local procurement expenditure, contract signature authorisation and progress of contracts. The Commissioning and Assurance Board allows for stakeholder engagement, integral in managing key decisions. There is wide advertising of procurement opportunities (Website, Twitter, UK Contract Finder, UK tender finder, Delta e-sourcing) Contracts awarded and procurement information is updated monthly on our websites and full, detailed and timely feedback is available to all unsuccessful bidders.

All major contracts must either be signed by the Chief Executive or the Assistant Director - Legal & Democratic Services together with one other Officer who has had authority delegated to them by the Chief Executive or Assistant Director - Legal & Democratic Services or sealed with the Council's Common Seal duly witnessed by an Officer authorised to do so.

However there has been evidence of losses in relation to Commercial Properties for successive financial years 2021/22 and 2022/23. During 2021/22 delays to projects and the collapse of a potential acquisition relating to commercial investment resulted in a £1.672m unachievable saving against the commercial investment savings target that year.

Improving economy, efficiency and effectiveness

During 2022/23 Commercial Properties had an adverse variance £1.4m due to delays in achievement of commercial income for 2022/23, however the Council has stated this amount was achievable in future years. On top of this there was a further £2m of unachieved commercial savings which would not be achievable in this or future years. We have therefore made improvement recommendations in relation to this area of the Council's services.

Shropshire North-West Relief Road (NWRR)

The lack of a direct road link between the northern and western parts of Shrewsbury has been a major source of traffic problems for a very long time and the issue continues to grow. Both the northern and western approaches to the town centre are heavily congested at peak times, and the presence of through traffic in the town centre leads to long queues and delays, blocking back through key junctions. None of these routes is suitable for this traffic, but there are no practical alternatives for most trips.

The Council's primary aim of the Shrewsbury North-West Relief Road is to improve Shrewsbury as a place in which to live, work and invest, by reducing congestion.

A completed Outline Business Case (OBC) was submitted to the Department for Transport (DfT) in December 2017 following Council endorsement (13 December 2017), of the funding profile, 5-year build plan, and the requirement for a local funding contribution.

Following a year of standstill pending DfT's announcement of successful schemes, the award of funding and Large Local Majors (LLM) Programme Entry Offer was finally confirmed on 21 March 2019. The Programme Entry is based on a £54.4m offer (capped) towards estimated scheme NWRR cost in the OBC of £71.4m, to be paid as a Capital Grant

The Oxon Link Road (OLR) project was formally incorporated into the NWRR project at Council on 27 February 2020, following agreement to do so by the Marches LEP Board on 7 November 2019.

Shropshire Council is now pursuing delivery of the NWRR (incorporating the former OLR section) as a single project and budget, with combined outcomes and outputs. The Council has recognised that as part of this process it needs to manage perceived conflicts as promoter of the project and also the Planning Authority.

The planning permission process has been protracted with it only being agreed (subject to finalisation of proposed Conditions and the signing of required S.106 agreements) on the 15 February 2024. The Council now needs to move to completion of the Final Business Case for consideration by the Council and DfT.

The budget for the Oxon Link Road section in isolation was approved by Council in 2016/17 at a total of £12.9m, funded from £4.2m LEP and £8.7m from Section 106 Developer Contributions. In 2019/20 Council approved a delegated budget of £15m for programme entry into the Department for Transport's Large Local Majors funding for the NWRR section. The project has now incurred costs of £28.2m as at end of Quarter 3 2023/24 against the budget of £27.9m and delegated permission for variations have recently been agreed by Council.

Given the size, complexity and extended nature of the project Internal Audit have undertaken reviews in 2021 and 2023. Key recommendations were made around governance arrangements and specifically the re-establishment of an Executive Project Board to provide regular oversight and challenge and formal approval of delegation arrangements.

These have recently been addressed but Internal Audit have made other improvement recommendations which they will be following up upon. For the successful delivery of the project responding quickly and positively to these will be key for the Council and we have made an improvement recommendation in this respect.

External funding is also key to the project. Completing the FBC by the end of 2024 is therefore also key. We have noted that the Government also announced on 26 February 2024 that over the next 7 years from April 2025 the Council could access £136.443m of Local Transport Fund (LTF) following the reallocation of HS2 funding.

We have also noted there was additional reporting by Internal Audit to the Audit Committee on 22 February 2024 and the Council took further decisions on the project on 29 February 2024. We have been contacted by a councillor with concerns over the decision-making process linked to the decisions made on 29 February. As the decision was made in the 2023-24 financial year we will be considering that as part of our 2023-24 audit work.

Conclusion

Overall, we have noted improvement since our previous report but there are still further improvements required. We have not identified significant weaknesses but have made improvement recommendations in relation to SEND, Commercial Ventures and the Shrewsbury North-West Relief Road.

Improvement recommendation

Improving economy, efficiency and effectiveness (Improvement Recommendations)

(IR 6) Recommendation 6	In response to the May 2020 report from the joint inspectorate review of special educational needs and/or Disabilities (SEND) by CQC and Ofsted, the Council have taken appropriate action to secure improvement in three out of the six areas where the regulators identified significant concerns in regard to the arrangements/ provisions in the local area. The Council has put arrangements in place to address the remaining three but still has further work to complete the proposed actions in its Accelerated Progress Plan (APP). The Council should therefore continue to work with its partners to full address the remaining three significant weaknesses.
Audit year	2021/22 and 2022/23
Why/impact	Any system failure in services that support children is likely to have a significant impact, both to the service user and to the Council staff involved as well as to the reputation of the Council. The inspection letter detailed weaknesses in arrangements in six areas. The Council has addressed three of these and has plans in place to address the remaining three. An Accelerated Progress Plan (APP) was formerly approved by the DfE and NHSE in April 2023 and a November 2023 assessment showed continued progress but also that some target dates had also had to be pushed back. As the Council has demonstrated that, alongside partners, it has taken actions in 2021/22, and 2022/23, but still has further work to undertake we are continuing with our improvement recommendation. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.
Management comment	This is accepted and work is on-going to address the remaining areas.

Improvement recommendations

Improving economy, efficiency and effectiveness (Improvement Recommendations)

(IR 7) Recommendation 7	The Council should increase visibility and transparency in relation to its Commercial Portfolio. The Council should ensure any commercial ventures are supported by a robust business case, and assumptions have been stressed tested against potential changes in assumptions such as inflation, or potential risks around income streams or savings. There should also be clear and transparent reporting if commercial ventures are not delivering either savings or income streams. The Council should identify mitigations if commercial ventures are not achieving stated objectives.
Audit year	2021/22 and 2022/23
Why/impact	We found in our review the commercial property portfolio has been making increasingly greater losses with savings either not delivered or deferred for successive financial years 2021/22 and 2022/23: • During 2021/22 delays to projects and the collapse of a potential acquisition relating to commercial investment resulted in a £1.672m unachievable saving against the commercial investment savings target that year. • During 2022/23 Commercial properties had an adverse variance £1.4m due to delays in the achievement of commercial income for 2022/23, however the Council has stated this amount was achievable in future years. On top of this there was a further £2m of unachievable commercial savings which would not be achievable in this or future years. Given the Council's challenging financial position it is imperative that commercial portfolio returns are realistic and deliverable in the medium term. Failure to deliver upon these projects increases the size of the Council's overall savings programme.
Management Comments	All expenditure is reported regularly within Financial Monitoring Reports as part of the capital programme and the delivery of savings and/or income is reported as part of regular revenue monitoring.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Improving economy, efficiency and effectiveness (Improvement Recommendations)

(IR 8) Recommendation 8	The Council should ensure the full range of improvement recommendations made by Internal Audit in respect of the project management and governance arrangements of the Shrewsbury North-West Relief Road project are responded to quickly and positively in order to provide the best environment for the successful delivery of the project.
Audit year	2021/22 and 2022/23
Why/impact	The delivery of the Shrewsbury North-West Relief Road is a key capital project for the Council, aligned to the Shropshire Plan, to improve Shrewsbury as a place in which to live, work and invest, by reducing congestion. The planning permission process has been protracted with it only being agreed in February 2024. The Council now needs to move to completion of the Final Business Case for consideration by the Council and DfT by December 2024. Given the size, complexity and extended nature of the project Internal Audit have undertaken reviews in 2021 and 2023. Key recommendations were made around governance arrangements alongside other improvement recommendations. The key recommendations are now in place but for the successful delivery of the project responding quickly and positively to the full range of internal recommendations will be key for the Council.
Management Comments	This recommendation is accepted and actions are in place to manage the recommendations identified.

The range of recommendations that external auditors can make is explained in Appendix C

Shropshire County Pension Fund

We considered :

- How the pension fund plans and manages its resources to ensure it can continue to deliver its services
- How the pension fund ensures that it makes informed decisions and properly manages its risk; and
- How the pension fund uses information about its costs and performance to improve the way it manage an delivers its services

Financial sustainability

The primary resources of the Pension Fund can be categorised broadly into two areas, contributions received from active members and returns on investments (interest, dividends, profit on disposal etc).

In line with regulations, the Fund is required to be formally valued every three years (triennial valuation) by a qualified actuary. As part of this exercise, the actuary will undertake an in-depth review of the Fund based on its current funding plans i.e. the level of assets required to meet future benefit payments, the time period over which it aims to achieve this and then determines the contribution rate at which employer bodies must contribute for the following three years. This also outlines that for major employers, rates may be paid in advance to the fund to cover the three year period. This should be considered in line with the funding strategy statement.

The investment activity of the Fund is dictated by the investment strategy statement which sets out the type of investments that Pension Fund money should be invested in, indicative allocations and expected returns and volatilities. The performance of these investments is then monitored by the Pensions Committee and copies of the reports sent to the Pension Board for information.

Governance

The operation of the Pension Fund is overseen and scrutinised by a number of committees, namely:

- The Local Pension Board was established by Council to meet the requirements of the Public Services Pension Act 2013 for each Local Government Pension Scheme to set up a Local Pension Board to assist the administering authority in ensuring compliance with legislation and the Pension Regulator's requirements. Members consider reports on policy, regulation, codes of practice, risk and fund performance (both investment and administrative).
- The Pensions Committee has a primary focus on the oversight of the general framework within which the Fund's investments are managed and the investment policy. Members are responsible for monitoring the work of the fund managers and the investment pool, LGPS Central Limited, and holding these external bodies to account for performance.

All of the above have met a number of times during the financial period. In line with other meetings of the Council, once a legal precedent was established, these were held virtually during the pandemic. Review of the minutes of meetings demonstrates that members discharge their responsibilities and make informed decisions based on sufficient and appropriate information.

Improving Economy, efficiency, effectiveness

As noted above, the Pension Committee monitor investment performance on a quarterly basis in arrears in line with the reporting provided by fund managers. Copies of all Pension Committee reports are also circulated to the Pension Board and included as agenda items for discussion at the next meeting.

The Local Pensions Board are provided with all Pension Committee reports and are also invited to Pension Committee meetings . A more detailed analysis of funding and performance is considered by the Pensions Committee and this is prepared by the actuary and reviewed in both the public and private sessions due to some content being of a commercially sensitive nature.

The detailed report provides members with information on valuation, sensitivity and benchmarking, in order to determine potential areas for improvement in investment activity.

The Fund produce quarterly reports to update the Local Pensions Board on the key developments affecting pensions administration and the performance of the Pensions Administration Service. This covers a suite of KPIs and measure of performance against these indicators, therefore identifying areas for improvement. The report also monitors workloads, breaches of policy and other projects ongoing to improve the service. The output of the performance of the Fund in the year is captured in the Pension Fund annual report.

Conclusion

Overall, we are satisfied the Council as administering authority has appropriate arrangements in place to ensure the appropriate governance and management of the Pension Fund. It should be noted that the nature of the LGPS is such that the scheme is highly regulated under various Pensions Regulations and compliance with these regulations will ensure adequate arrangements to provide value for money.

Opinions on the financial statements

Grant Thornton provides independent opinions on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2022 and 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Codes of Practice on Local Authority Accounting in the United Kingdom for 2021/22 and 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audits in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinions on the financial statements

We have completed our audits of the Council's financial statements for 2021/22 and 2022/23. We issued:

- an unqualified audit opinion on the 2021/22 financial statements in December 2023, and
- an unqualified audit opinion on the 2022/23 financial statements in February 2024.

The full opinions will be included in the Council's Statements of Accounts for 2021/22 and 2022/23, which can be obtained from the Council's website.

Further, summary, information on our audits of the financial statements is set out on pages 32 and 33.

Opinion on the financial statements – 2021/22

Audit opinion on the financial statements

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

We gave an unqualified opinion on the Council's financial statements on 13 December 2023.

Timescale for the audit of the financial statements

We presented to the Audit Committee (AC) in September 2022. Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error were identified as :

- Management over-ride of controls
- Valuation of land and buildings (including investment properties and Council Dwellings)
- Valuation of the pension fund net liability

The Authority provided draft accounts by the end of May 2022, in line with the statutory timetable and ahead of many councils in the sector .

Our audit work was substantially completed both on site and remotely during July-December 2022. Finalisation of the audit was delayed by primarily two technical issues:

- One relating to a national issue in respect of infrastructure accounting which required a Statutory Instrument to provide a temporary remedy which was issued on 25 December 2022, and
- The knock-on impact of the infrastructure issue meant the 2021/22 audit was not finalised until after the results of 2022 triennial pension valuation results were available. As these provide more information on conditions at 31 March 2022 a revised actuary's report was required.

Findings from the audit of the financial statements

We designed testing to address the risks identified in our audit plan. Detailed findings are set out in the final version of the Audit Findings Report which was was presented to the Audit Committee in November 2023. Requests for this Audit Findings Report should be directed to the Council.

We identified two material adjustments to the draft financial statements presented in May 2022. These were amended in the final version of the financial statements as follows:

- **Property, Plant and Equipment (Infrastructure)** – Due to the application of accounting adjustments following publication of the Statutory instrument in December 2022 , PP&E balances increased by £148m.
- **IAS 19 Pension adjustment** - Following the publication of the 31 March 2022 triennial valuation the Council's net pension liability increased by £29.1m.

We also identified two immaterial unadjusted misstatements with a net impact on the Council's balance sheet of £1.1m :

- **Group financial statements** - Consolidation of Cornovii Developments Limited. At the time the Council's financial statements were prepared, only draft accounts of Cornovii Developments Limited were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. Net £0.1m CIES impact.
- **Property, Plant and Equipment**- additions of £1.021m were capitalised in the incorrect accounting period.

We engage well with the central finance team, however, complexity of audits has grown and there are departments where we and the finance team struggle for full engagement with the audit process. We raised a recommendation as part of our Audit Findings Report to seek to address this wider engagement as part of the 2022/23 preparation process.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Authority's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Specific, detailed, work is not required as the Authority does not exceed the threshold.

Opinion on the financial statements – 2022/23

Audit opinion on the financial statements

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

We gave an unqualified opinion on the Council's financial statements on 26 February 2024.

Timescale for the audit of the financial statements

We presented our Audit Plan to the Audit Committee (AC) in September 2023. Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error were identified as:

- Management over-ride of controls
- Valuation of land and buildings including Council Dwellings
- Valuation of the pension fund net liability

Following our presentation of the plan, our risk assessment was revised to remove Council Dwellings as an area requiring special audit consideration and Investment property was added .

The Authority provided draft accounts by the end of May, in line with the statutory timetable and ahead of many councils in the sector who are still struggling with backlogs.

Our audit work was substantially completed both on site and remotely during July-October with the majority of finalisation work occurring in October-December 2023.

Finalisation was delayed primarily as we awaited a response from the Council's valuer in relation to an asset area query.

Findings from the audit of the financial statements

We designed testing to address the risks identified in our audit plan. Detailed findings are set out in our Audit Findings Report, which was presented to the Council's Audit Committee on 22 February 2024. Requests for this Audit Findings Report should be directed to the Council.

We identified one material adjustment to the draft financial statements presented in May 2023 . This was amended in the final version of the financial statements.

The adjustment resulted in a £29.1m movement to the Council's Comprehensive Income and Expenditure Statement. This amendment relates to the movement in the net Pension Fund liability. As a result of the publication of the 31 March 2022 triennial valuation better information was available on conditions that existed at 31 March 2022 and the Council amended its 2021/22 financial statements after the 2022/23 accounts were published. There has therefore been a knock on impact into the 2022/23 financial statements. This amendment does not impact on the general fund balances of the Council.

We also identified two immaterial unadjusted misstatements with a net impact on the Council's balance sheet of £2.6m. In summary these are as follows;

- **Net pension liability – overstatement of £987k** - The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m. Using an estimated share of the net assets the potential impact for Shropshire Council is £987k.
- **Other Land and Buildings – Gross internal areas- understatement of £3.6m.** Our testing identified an error in the use of an incorrect gross internal area within the Councils asset valuation.

We did not encounter any significant difficulties or identify any significant matters arising during our audit, but finalising responses to valuation queries is still proving time consuming, and note the improving wider engagement with the audit process.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Authority's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Specific, detailed, work is not required as the Authority does not exceed the threshold.

Appendices

Appendix A – Responsibilities of Shropshire Unitary Authority

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

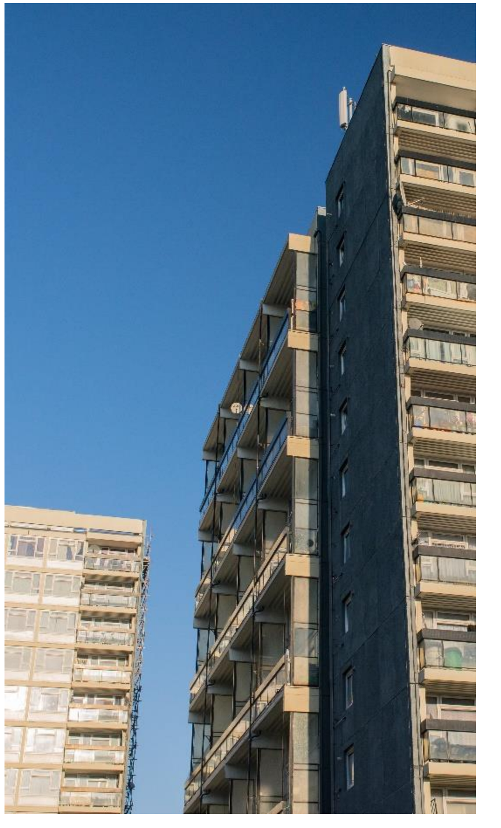
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (James Walton)is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Unitary Authorities ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Unitary Authority will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and / or 2022/23	Financial sustainability was identified as a potential significant weakness because of the Council's significant medium-term challenges.	Review of key documentation and meetings with relevant officers alongside benchmarking.	See pages 7 to 17.	One significant weakness identified, one key recommendation raised and four improvement recommendations raised that cover both 2021/22 and 2022/23.
2021/22 and / or 2022/23	Governance was not identified as a potential significant weakness, see pages 18 to 28 for more details.	N/A – no risk of potential significant weakness identified	See pages 18-22.	Appropriate arrangements in place, one improvement recommendation raised covering both 2021/22 and 2022/23.
2021/22 and / or 2022/23	Improving economy, efficiency and effectiveness was identified as a potential significant weakness in respect of the Council's response to the inadequate rating issued by Ofsted in respect of children in care.	Review of key documentation and meetings with relevant officers.	See pages 23-29.	Appropriate arrangements in place, three improvement recommendations raised covering both 2021/22 and 2022/23.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the authority. We have defined these recommendations as 'key recommendations'.	Yes	7
Improvement	These recommendations, if implemented should improve the arrangements in place at the authority, but are not a result of identifying significant weaknesses in the authority's arrangements.	Yes	14-17, 22, 27-29

Appendix D – Sources of evidence

Staff involved

- James Walton , Director of Finance
- Ben Jay, Deputy Director of Finance
- Barry Hanson, Head of Audit Services
- Laura Tyler, AD Commissioning Adult Social Care
- Natalie McFall, Adult Social Care and Housing
- Sonya Miller, AD Childrens and Safeguarding
- David Shaw, AD Education & Achievement
- Nigel Denton, Head of Procurement
- Andy Bagley, Chief Executive
- Helen Watkinson, Head of Performance
- Saskia Richardson. Risk Officers
- Neil Fenton, PMO (Transformation)
- Tim Collard, Monitoring Officer
- Deborah Webster, Childrens Commissioning

Documents Reviewed

- Corporate Quarterly Performance Reports 2021/22 and 2022/23
- Council Plan 2022-25
- Cabinet Reports 2021/22 and 2022/23
- Audit Committee Papers 2021/22 and 2022/23
- Letter of Joint Area revisit in Shropshire
- Annual Governance Statement 20-21
- Directorate Plans 2021/22 and 2022/23
- Capital Programme Monitoring
- Statement of Accounts 2021/22
- Procurement Strategy 2022
- Procurement Improvement Plan 2022
- Corporate Risk Reports
- Members Code of Conduct
- Employee Code of Conduct
- Audit Services Annual Performance Report 2021/22
- Anti-Fraud and Corruption Strategy
- Audit & Standards Annual Report 21/22
- Corporate Procurement Audit Report
- The Shropshire Plan/Getting it right (GiR)
- Revenue Budget Strategy 21/22, 2022/23
- Treasury Management Strategy 21/22, 22/23
- Revenue Outturn 21/22, 22/23
- Workforce Strategy 2022
- Budget Reports 21/22, 23/24
- Cash Flow Forecast
- Medium Term Financial Strategy 2021/22, 2022/23, 2023/24
- Department for Education, Guidance on our intervention work with local authorities October
- LGA Peer review (Finance/Communications/Children Services)
- Risk Management Report
- Code of Corporate Governance 2021/22
- Whistleblowing Policy 2021/22
- Shropshire Constitution
- Internal Audit Plan Report 21-22
- Internal Audit Plan 21- 22, 23-24
- Annual Overview and Scrutiny Report 2021-22
- Appointments Committee Reports Pack April 2023
- Senior Leadership Team Structure
- Exemptions from the requirement for a competitive procurement process
- Children and Young People 's Plan Update Report

Appendix E - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

NAO – National Audit Office

AGS – annual governance statement

The Code - Code of Audit Practice

CIPFA – Chartered Institute of Public Finance and Accountancy

FM – Value for Money

SLT – Senior Leadership Team

DSG – Dedicated Schools Grant

DfE – Department for Education

MTFS – medium term financial strategy

PSIAS – Public Sector Internal Audit Standards

S151 – Section 151

DfT – Department for Transport

IMO – independent monitoring officer

FAFE – Forging a Future Executive

KPI – key performance indicator

HR – human resources

SLA – Service Level Agreement

PMO – Project Management Office

SEND – special educational needs and disabilities

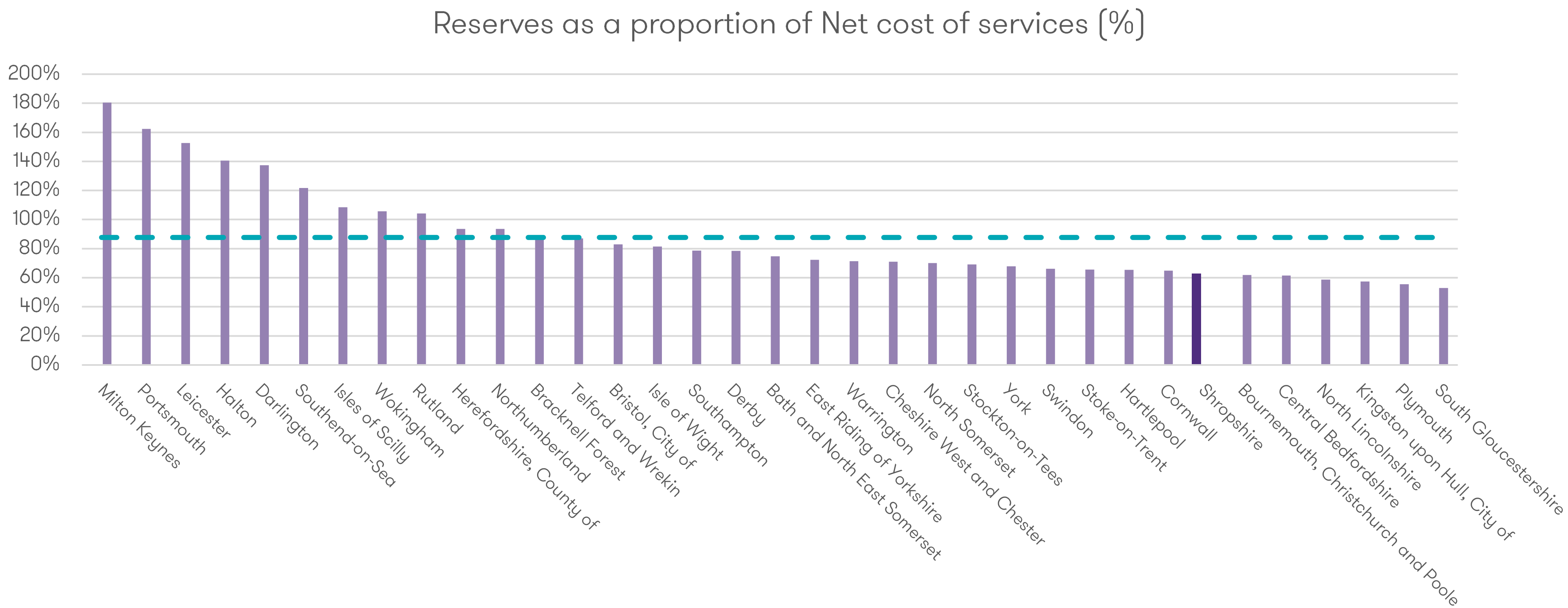
NPLSG - National Procurement Strategy for Local Government

TSP – The Shropshire Plan

HOIA -Head of internal Audit

LEP Local Enterprise Partnerships

Appendix F(1) – Reserves and Provision Balances as at 2021/22



Appendix F(2) – General fund Balances as at 2021/22