



Committee and Date

Audit & Governance
Committee

27th November 2025

Item

Public



Auditor's Annual Report (AAR)

Responsible Officer:

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Cabinet Member (Portfolio Holder):

Roger Evans

1. Synopsis

The AAR 2024/25 highlights Shropshire Council's financial challenges, issuing one statutory and three key recommendations focussing on financial resilience. Council actions and plans are underway to address these issues.

2. Executive Summary

- 2.1. The Annual Auditors Report (AAR) brings together a summary of the work undertaken by Grant Thornton, Shropshire Council's appointed external auditor, during 2024/25. A key element of this report is the commentary provided by external audit on the Council's value for money (VfM) arrangements.
- 2.2. Last year, the AAR was provided to Audit Committee in November 2024 and included two Key Recommendations. The first referenced governance issues relating to the North West Relief Road and is now considered as implemented in full. The second related to the Council's financial sustainability and this has been carried forward to this year and escalated to a statutory recommendation. This year's AAR includes three key recommendations and one statutory recommendation. These are set out below:

SR1: The Council should:

- Continue, at pace, the action taken to address the financial challenges it faces, including an immediate review of all services, both statutory and non-statutory, and identify the cost of minimum viable service provision to deliver its statutory responsibilities. This will enable the Council to understand the scale of its

structural deficit between the cost of services and the income available to the Council. This action should give the Council an understanding of immediate decisions and savings that can be delivered, replicating actions that would be taken were the Council to issue a Section 114 Notice.

- Review all estimates and modelling that feed into the development of the budget and MTFS to ensure that optimism bias is reduced or eliminated. This should enable the Council to mitigate variances in the actuals compared to budget resulting from over-optimism in assumptions.
- Develop a realistic and deliverable plan over the medium term as to how EFS will support the increase in financial resilience, and how the Council will reduce reliance on this support to reach a financially sustainable position. EFS should be temporary in nature and the Council needs to clearly articulate the plan for reaching a financially sustainable position without undue reliance on temporary sources of support, which increase the debt profile of the Council and the associated ongoing revenue costs of servicing this borrowing.
- Immediately action the recommendations raised in the Internal Audit review with regards to the budget monitoring and reporting issues that contributed to the significant deterioration in the 2024/25 outturn position. Audit and Governance Committee should receive a report on the progress of addressing the recommendations to avoid a similar situation occurring again in the future.

KR1: The Council should:

- review all savings programmes to scrutinise deliverability
- ensure that, when setting the budget for 2026/27 the savings programmes included are deliverable and achievable, and scenario plan for any slippage to support the financial position
- review the outputs from the PwC transformation work and identify initiatives that can be implemented at pace to support savings delivery

KR2: The Council should:

- continue to drive forward activity that seeks to mitigate the growth of the DSG deficit whilst continuing to engage through the Schools Forum on the management plan in place
- regularly reporting on the impact of mitigations should be made through the Schools Forum whilst also being reported to Cabinet as part of the overall financial monitoring reporting

KR3: The Council should:

- immediately create an action plan as to how to address the pervasive issues across the Council that are contributing to the “Limited Assurance” opinion from the Head of Internal Audit
- the plan should be approved by the Audit Committee and there should be regular reporting to Audit Committee on progress against the plan
- appoint a lead officer to drive this improvement

2.3. Management responses have been provided to each of these recommendations. The response to the Statutory Recommendation is:

- The Council acknowledges the seriousness of the financial challenges it faces and is committed to taking decisive and sustained action to address them. A series of reports are due to be considered by Cabinet on 3 December 2025 that will directly tackle the issues raised in this statutory recommendation. This will include:
 - Shropshire Council Improvement Plan – setting a roadmap over the next 18 months to improvement
 - Medium Term Financial Strategy – creating the foundations for a move to a stabilised and, over the medium term, a sustainable budget.
 - Capital Strategy – setting out the initial approach to bringing about a stabilised approach to capital investment.
 - Pre-Budget Report – setting out the technical financial actions being taken to tackle the issue of s114 and how the MTFS, Capital Strategy, Treasury Strategy, Reserves Strategy and Exceptional Financial Support Strategy will work, in tandem with the Improvement Plan, to bring about financial stability.
 - Council is due to approve the 2026/27 Budget and MTFS in February 2026 which will provide a direct response to this Statutory Recommendation.

2.4. Full details of the work undertaken, evidence and recommendations and the proposed management responses are set out in the Auditor's Annual Report attached at Appendix 1.

3. Recommendations

It is recommended that Members of the Audit Committee consider:

- a) The Auditor's Annual Report for 2024/25 drawing particular attention to the statutory recommendation made and decide whether the report requires the authority to take any action or whether the recommendation is to be accepted
- b) The management responses included within the report and what, if any, action to take in response to the report.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. Details of the potential risks affecting the financial health of the Council are considered as part of the Council's Strategic Risk process. The Auditor's Annual Report brings together a summary of all the work undertaken by Grant Thornton for Shropshire Council during 2024/25 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements.

5. Financial Implications

- 5.1. Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet on a monthly basis. Significant management action has been instigated at

all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers and/or Portfolio Holders review the overall financial situation and make decisions aligned to financial survivability. All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):

- scaling down initiatives,
- changing the scope of activities,
- delaying implementation of agreed plans, or
- extending delivery timescales.

- 5.2. This report considers financial implications that will be set out, in detail, in the Council's MTFS reports from December 2025 through to February 2026.

6. Climate Change Appraisal

- 6.1. No issues identified directly within this report.

7. Background

- 7.1. Shropshire Council is facing severe and immediate financial sustainability challenges, with a reported overspend of £34.32 million in 2024/25 and a forecast overspend of £47.1 million (as at Quarter 2) for 2025/26. The auditors highlight that weaknesses in budgeting and monitoring contributed to a significant deterioration in the Council's financial position, particularly between the final two periods of 2024/25. The Council risks exhausting its General Fund reserves and potentially entering an unlawful financial position.

- 7.2. Our External Auditors have responsibility to give an opinion on the Council's financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Authority's use of resources. They also have additional powers and duties under the Local Audit and Accountability Act 2014 ('the Act'). These include powers to use a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and raise objections received in relation to the accounts. Grant Thornton have concluded that it is appropriate for us to use their powers to make written recommendations under Section 24 of the Act, due to the significant weaknesses identified in relation to the current financial position of the Council and the forecast outturn position for 2025/26 potentially putting the Council into an unlawful financial position. This includes a Statutory Recommendation.

- 7.3. A Statutory Recommendation is of key significance for the authority but is not unexpected given the Council's declaration of a Financial Emergency on 10 September 2025 and the continued reporting of a deteriorating financial position in Period 5 and Quarter 2 Financial Monitors in October and November. Much of the work to resolve the issues is already being taken forward by the Council, but this does not distract from the seriousness of this recommendation.

- 7.4. Having received a statutory recommendation, Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions: The Authority must consider the recommendation at a meeting held before the end of the period of one month

beginning with the day on which it was sent to the Authority. At the public meeting the Authority must decide:

c) whether the report requires the authority to take any action or whether the recommendation is to be accepted, and

d) what, if any, action to take in response to the report or recommendation.

7.5. The meeting of Audit Committee on 27 November 2025 fulfils the requirement for the statutory recommendation to be considered by the authority within one month. The recommendations at section 3 fulfil the decision points identified in the previous paragraph.

7.6. In the report, the Council is urged to address the financial challenges at pace, review the budget and Medium Term Financial Strategy (MTFS), and develop a plan to remove any reliance on Exceptional Financial Support beyond the medium term. Additional key recommendations focus on the overambition of savings plans and the growing Dedicated Schools Grant deficit, both of which threaten the Council's financial resilience.

7.7. The auditors also identify significant governance concerns, notably the sixth consecutive year of a "Limited Assurance" opinion from the Head of Internal Audit, indicating persistent weaknesses in the Council's internal control environment. The auditors note that a lack of urgency in addressing internal audit findings has contributed to the Council's financial difficulties. While the Council has made progress in some areas, such as strengthening governance around major projects and establishing robust partnership working, urgent action is required to address the recommendations from the recent Local Government Association Corporate Peer Challenge and to improve overall value for money arrangements. External Auditor commend the Council's proactive steps, such as the formation of spending control boards and an Improvement Board, but stress that these measures must be accelerated and embedded to restore financial stability and effective governance.

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

Financial Monitoring Reports to Cabinet through 2025/26

Financial Strategy – Council 27 February 2025

External Audit Reports to Audit Committee through 2024/25 and 2025/26

Local Member: n/a

Appendices

Appendix 1: Auditor's Annual Report year ending 31 March 2025