Public Document Pack

Shropshire Council

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

Date: Wednesday, 8 September 2021
My Ref:
Your Ref:

Committee:
Audit Committee

Date: **Thursday, 16 September 2021**
Time: **10.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting. The Agenda is attached
Members of the public will be able to access the live stream of the meeting by clicking on this link:

http://shropshire.gov.uk/AuditCommittee16Sept2021

There will be some access to the meeting room for members of the press and public but this will be very limited due to current Health and Safety Regulations. If you wish to attend the meeting, please e-mail democracy@shropshire.gov.uk to check that a seat will be available for you.

Tim Collard
Interim Assistant Director – Legal and Democratic Services

Members of Audit Committee
Rosemary Dartnall
Roger Evans
Simon Harris (Vice-Chairman)
Nigel Lumby
Brian Williams (Chairman)

Your Committee Officer is:

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

AGENDA

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

2 **Disclosable Pecuniary Interests**

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

3 **Minutes of the previous meeting held on the 30 July 2021** (Pages 1 - 10)

The Minutes of the meeting held on the 30 July 2021 are attached for confirmation.
Contact Michelle Dulson (01743) 257719

4 **Public Questions**

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00am on Wednesday 8 September 2021.

5 **Member Questions**

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 10.00am on Wednesday 8 September 2021.

6 **Second line assurance: Risk Annual Report 2020/21 incorporating Strategic Risks Update** (Pages 11 - 20)

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

7 **Second line assurance: Annual Treasury Report 2020/21** (Pages 21 - 38)

The report of the Executive Director of Resources (Section 151 Officer) is attached
Contact: James Walton 01743 258915

8 **Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2021/22** (Pages 39 - 58)

The report of the Head of Audit is attached
Contact: Ceri Pilawski 01743 257739

9 **Third line assurance: Internal Audit: Quality assurance and Improvement Programme (QAIP)** (Pages 59 - 64)

The report of the Head of Audit is attached
Contact: Ceri Pilawski 01743 257739

10 Second line assurance: Statement of Accounts 2020/21 (Pages 65 - 278)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton 01743 258915

11 Third line assurance: External Audit: Shropshire County Pension Fund Annual Audit findings (Information) 2020/21 (Pages 279 - 306)

The report of the Engagement Lead is attached
Contact: Grant Patterson (0121) 232 5296

12 Third line of assurance: External Audit: Audit progress report and sector update

The report of the Engagement Lead is to follow
Contact: Grant Patterson (0121) 232 5296

13 Third line of assurance: Changes to Arrangements for Appointment of External Auditors (Pages 307 - 314)

The report of the Executive Director of Resources (Section 151 Officer) is attached
Contact: James Walton 01743 258915

14 Date and time of next meeting

The next meeting of the Audit Committee will be held on the 9th December 2021 at 10:00am.

15 Exclusion of Press and Public

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

16 Exempt Minutes (Pages 315 - 316)

The Exempt Minutes of the meeting held on the 30 July 2021 are attached for confirmation.
Contact: Michelle Dulson 01743 257719

17 **First line assurance: Highways Term Maintenance update** (Pages 317 - 354)

The report of the Executive Director of Place is attached
Contact: Mark Barrow 01743 258919

18 **Third line assurance: Fundamental Recommendations (Exempted by Categories 2, 3 and 7)** (Pages 355 - 358)

The report of the Head of Audit is attached
Contact: Ceri Pilawski 01743 257739

19 **Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)** (Pages 359 - 364)

The report of the Principal Auditor is attached
Contact: Katie Williams (01743) 257737

Shropshire Council

Committee and Date

Audit Committee

16 September 2021

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 30 JULY 2021
10.00 AM – 12.40 PM**

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

Present
Councillor Brian Williams (Chairman)
Councillors Caroline Bagnall (Substitute for Rosemary Dartnall), Simon Harris (Vice-Chairman), Nigel Lumby and Roger Evans (Substitute for David Vasmer).

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

4.1 Apologies were received from Councillors Dartnall and Vasmer. Councillor Bagnall substitute for Councillor Dartnall and Councillor R Evans substituted for Councillor Vasmer.

5 **Disclosable Pecuniary Interests**

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

6 **Minutes of the previous meetings held on the 4 March 2021 and 20 May 2021**

6.1 **RESOLVED:** That the Minutes of the meetings of the Audit Committee held on the 4 March 2021 and 20 May 2021 be approved as a true record and signed by the Chairman.

7 **Public Questions**

7.1 There were no questions from members of the public.

8 **Member Questions**

8.1 There were no questions from Members.

9 **Second line assurance: Annual Whistleblowing report**

9.1 Members received the report of the Assistant Director of Workforce (copy attached to the signed minutes) which presented the Annual Whistleblowing report for 2020/21 which showed that there had been 35 cases reported under the Whistleblowing arrangements, a 43% increase on the previous year.

9.2 The Assistant Director of Workforce explained that the Council had an effective strategy in place that was available on the intranet and the Council's website so employees were able to access it outside of work. She explained what was meant by 'Whistleblowing' and drew attention to paragraph 6 and the types of whistleblowing that were eligible for protection (qualifying disclosures) set out at paragraph 6.7 of the report.

9.3 The majority of the 35 cases reported in 2020/21 were reported via email however some had been reported via telephone, verbally or in writing. The main themes were grant fraud, financial and benefit fraud, the results of which were set out in the report at paragraph 7.

9.4 The Assistant Director of Workforce then drew attention to a challenge to the Whistleblowing Policy and supporting process through an employment tribunal the details of which were set out at paragraph 8.2 of the report along with a link to the full judgment which confirmed that the Council follows its Whistleblowing Policy in practice.

9.5 **RESOLVED:**

That the contents of the report be noted.

10 **Third line assurance: Internal Audit Annual report 2020/21**

10.1 Members received the report of the Head of Audit, (copy attached to the signed minutes) which provided details of the work undertaken by Internal Audit for the year ended 31 March 2021. The Head of Audit confirmed that she could offer 'limited assurance' on the Council's framework for governance, risk and internal control in her end of year opinion.

10.2 The Head of Audit reported that there were an increasing number of areas of high and medium risk along with areas where business resources had been redirected due to Covid-19 which had led to less improvements being delivered. She drew attention to paragraph 8 of the report and the limited and unsatisfactory assurances since the last report in March 2021.

10.3 The Head of Audit advised members that 57% of the opinions delivered had been good or reasonable, a 7% decrease on the previous year. This was offset by a 7% increase in limited and unsatisfactory opinions. A total of 547 recommendations had been made in the 53 reports issued in the year.

10.4 Turning to Paragraph 8.11, the Head of Audit reported that the number of significant and fundamental recommendations had increased from 40% to 49% compared to the previous year. Finally, the Head of Audit advised members that she was satisfied that the delivery target of 90% for 2020/21 planned audits had been achieved, in compliance with the Public Sector Internal Audit Standards (PSIAS).

10.5 The Chairman understood the effects of Covid-19 but was concerned that in the future Covid-19 should not be accepted as a reason why assurance levels were compromised. In response to a query about the six members of audit staff who had been redeployed to respond to Covid-19 matters, the Head of Audit explained that whilst most had returned to Audit, one member of staff was still involved with business grants.

10.6 In response to a query in relation to the process undertaken for unsatisfactory areas, the Head of Audit explained that a further audit would be timetabled in for the next financial year in order to allow time for improvements to be made and become imbedded. However, the Committee may wish to seek assurance from the Manager that improvements were indeed being undertaken prior to it being re-audited.

10.7 A brief discussion ensued in relation to repeat offenders and the Head of Audit explained the process employed including escalation to the Executive Director and Chief Executive. The Head of Audit explained that a self-assessment was used for unsatisfactory and limited assurances which asked whether any improvements had been made – if the answer was no, there was no point re-auditing. If however improvements had been made, due diligence was undertaken but as the improvements had not been tested it would not change her audit opinion.

10.8 A query was raised about some of the areas which had attracted limited and unsatisfactory assurances appearing more than once and it was felt that the Committee should concentrate on these areas and invite the managers to Committee in order to seek assurances from them. The Head of Audit explained that these areas would be re- audited and the direction of travel reported. She confirmed that a number of these areas were coming up on the Committee's work plan.

10.9 In response to a query the Head of Audit explained that due to capacity issues audits were undertaken of the more risky areas rather then those areas which were low risk to the business but could be changed to add value. In response to a further query, the Head of Audit explained the training provision for staff in order that they remain equipped with appropriate skills to undertake their role.

10. **RESOLVED:**

a) That performance against the Audit Plan for the year ended 31 March 2021 be noted.

b) To note that Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2020/21.

c) To note and support the Head of Audit's limited assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2020/21 based on the work undertaken and management responses received.

11 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2020/21

11.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which informed them of the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards.

11.2 The Executive Director of Resources (Section 151 Officer) confirmed that the self-assessment carried out had confirmed that Internal Audit complied with the Public Sector Internal Audit Standards (PSIAS) and that where there was some limited partial conformance, this was normal in local government environments and not significant enough for escalation in the Annual Governance Statement.

11.3 The Executive Director of Resources (Section 151 Officer) informed members that the next five-year external assessment had to be undertaken by 31 March 2022. He then drew attention to Paragraph 8 which set out the main areas of potential non-conformance.

11.4 **RESOLVED:**

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

b) That the Committee note the approach adopted for the external assessment and agree that the final details of the assessment be agreed by the Section 151 Officer and Head of Audit in consultation with the Chairman of the Audit Committee.

c) That the Committee endorse the decision to go to market for quotations from an external assessor. The outcome of which will be reported back to the Committee.

12 **Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2020/21**

12.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which set out the Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2020/21.

12.2 The Executive Director of Resources (Section 151 Officer) advised members that under the Accounts and Audit Regulations 2015, Regulation 6, the Council had to produce an AGS to accompany the annual statement of accounts, which must be signed off by the Chief Executive and Leader of the Council. This statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations.

12.3 The Executive Director of Resources (Section 151 Officer) drew attention to the AGS, attached to the report at Appendix A, the Code of Corporate Governance attached at Appendix B along with an Action Plan update for 2019/20 (Appendix C) which identified areas for improvement.

12.4 A query was raised in relation to the significant governance issues referred to on page 84 of the AGS and whether sufficient resources would be available to bridge the funding gap in future. In response, the Executive Director of Resources (Section 151 Officer) explained that funding was a key issue for the authority and that in the last financial year significant government funding had been provided due to Covid-19. As the Council worked its way through the year, funding had become available in different tranches so it had been difficult to plan as the impact of Covid was not known. The pandemic had obviously not gone away however, but the Council still needed to balance its budget.

12.5 He confirmed that additional funding had helped to manage this year but it was difficult to say whether Covid would still be an issue going forward. He then referred to the Government Fair Funding formula which had been delayed for two years and would not be in place for the 2022/23 financial year and he expected that one off funding would continue. This was obviously a significant risk to Council, the implications of which would be worked through and built into the planning process.

12.6 **RESOLVED:**

A. That the Annual Governance Statement 2020/21 as set out in Appendix A of the report be approved.

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

13 Third line assurance: Annual Assurance report of Audit Committee to Council 2020/21

13.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which set out the Audit Committee's Annual Assurance Report to Council for 2020/21. He drew attention to the Executive Summary at paragraph 2 of the report and reported that the Audit Committee could provide reasonable assurance.

13.2 In response to a query in relation to the Highways Term Maintenance Contract, the Executive Director of Resources (Section151 Officer) explained that the control improvements in this service area had not greatly impacted the overall control environment nor the assurance level given.

13.3 Members noted that the Audit Committee would not be as effective without the backing, reports and training from Audit staff and wished this to be referred to in the report to Council.

13.4 **RESOLVED:**

That the Draft Annual Assurance Report for 2020/21 be approved, subject to the above amendment, and that Council be recommended to accept the contents of the report.

14 Second line assurance: Financial outturn report 2020/21

14.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which provided financial commentary on the 2020/21 Financial Year; a year dominated by the Coronavirus global pandemic. Despite this, Shropshire Council has delivered £11.7m savings, 96% of its capital programme and a year-end underspend of £0.764m.

14.2 The Executive Director of Resources (Section 151 Officer) advised the meeting that the report had been to Cabinet, Full Council and Scrutiny and was brought to the Audit Committee to allow members to consider the controllable expenditure etc before being taken through the detail of the Statement of Accounts.

14.3 The Committee were informed that two thirds of the forecast savings had been delivered, details of which were set out in paragraph 8 of the report. The Executive Director of Resources (Section 151 Officer) then drew members' attention to the additional expenditure due to Covid-19 along with the Government grants used to offset this expenditure.

14.4 The Executive Director of Resources (Section 151 Officer) explained that the general fund balance as at 31 March 2021 was £14.09m which remained significantly below the risk assessed target of £15.5m.

14.5 In response to a query, the Executive Director of Resources (Section 151 Officer) confirmed that the reason why the level of school balances appeared to have increased during the year, was because the 2019/20 balance was depressed due to the dedicated school grant deficit.

14.6 **RESOLVED:**

A. To note that the outturn for the revenue budget for 2020/21 is a controllable underspend of £0.655m (0.11% of the original gross budget of £575.462m).
B. To note that the level of the General Fund balance after adjusting for the outturn underspend and insurance position stood at £14.091m, which was an increased balance when compared with March 2020, but was still significantly below the recommended level.
C. To note that the Council had been sufficiently provided with revenue funding relating to Covid-19 in 2020/21, and that therefore no additional costs had had to be funded by the Council's base budget.
D. To note that the outturn for the Housing Revenue Account (HRA) for 2020/21 was an underspend of (£3.634m) and the level of the Housing Revenue Account reserve stands at £11.341m (£10.140m in 2019/20).
E. To note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £22.019 in 2020/21 and the reasons for this.
F. To note that the level of school balances stood at £5.995m (£1.891m in 2019/20).
G. To approve net budget variations of £4.812m to the 2020/21 capital programme, detailed in Appendix 9 / Table 18 and the re-profiled 2020/21 capital budget of £68.566m.
H. To approve the re-profiled capital budgets of £157.430m for 2021/22, including slippage of £2.828m from 2020/21, £115.644m for 2022/23 and £15.070m for 2023/24 as detailed in Appendix 9 / Table 19.

I. To accept the outturn expenditure set out in Appendix 9 of £65.738m, representing 96% of the revised capital budget for 2020/21.
J. To approve retaining a balance of capital receipts set aside of £20.036m as at 31st March 2021 to generate a one-off Minimum Revenue Provision saving of £0.708m in 2021/22.
K. To Approve the write off of the capital loan to SSC No.1 company up to the value of £0.450m with no General Fund impact.

15 Second line assurance: Approval of the Council's Draft Statement of Accounts 2020/21

15.1 Members received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed minutes) which provided an overview of the Accounts for the year 2020/21 and details of the reasons for the most significant changes between the 2019/20 Accounts and the 2020/21 Accounts.

15.2 The Executive Director of Resources (Section 151 Officer) informed Members of the reason for the revised covering report and analytical review which had been issued the previous day. He explained that the closure of accounts had taken longer this year due to Covid-19 and the delay around the valuation of Property, Plant and Equipment (PPE) which had only been received the previous week. Also, the final valuation of the Shropshire County Pension Fund had changed significantly leading to adjustments having to be made in the accounts otherwise it would have been a material misstatement.

15.3 The Executive Director of Resources (Section 151 Officer) apologised to Members and understood that it was unacceptable that they had only received the draft Statement of Accounts the day before the meeting and hence the revised report and analytical review being sent by way of mitigation. As Members were not able to form an opinion on the accounts, the Executive Director of Resources (Section 151 Officer) suggested that Members submit any questions and/or comments to himself and the Interim Director of Strategic Finance in the next couple of weeks who would consider and respond as necessary.

15.4 In response to a query the Executive Director of Resources (Section 151 Officer) replied that pages 17-224 were entirely new and that the analytical review pages 7-16 included changes made in the last week. He invited members to look at pages 7-16 to identify any concerns and questions not dealt with in the explanation. He confirmed that the Pension Fund accounts had been reviewed by the Pensions Committee.

15.5 In response to a query about why the Auditor's Statement was blank (note section 3) the Executive Director of Resources (Section 151 Officer) explained that once the draft Statement of Accounts had been signed off, they were passed to Grant Thornton who had from 1 August to 30 September to produce their audit opinion and certificate. It was hoped to take this to Council on the 23 September but the Audit Committee would have the opportunity to look at it either in their training session on 10 September or the next Committee meeting on 16 September.

15.6 The Interim Director of Strategic Finance took Members through the analytical review and highlighted the most significant areas where there had been material changes (variances) over £8m or over 10%, and explained why these changes had occurred (see Appendix 1).

15.7 In response to a query relating to the revised dedicated school grant deficit, the Strategic Financial Accountant referred to note 29 in the accounts and explained that the new regulations allowed for any deficit to be transferred to unusable reserves then ringfenced for future years.

15.8 In response to a query about the decrease in assets, the Strategic Financial Accountant explained that this was due to the movement of the net equity position on the balance sheet due to the result of the fall in investment valuation.

15.9 In response to a query the Executive Director of Resources (Section 151 Officer) explained that the £3.4m Shopping centre purchase price covered some of the capital works when it was held in Trust. From 1 February 2021 this became part of the Capital Expenditure (note 17) and the £8.5m was the value of the PPE element plus movements. The Executive Director of Resources (Section 151 Officer) explained that the value of the Unit Trust had to be separated out into income/expenditure/cash plus valuation. He agreed to provide more detail if required.

15.10 In response to a query about the collection fund (section 8) it was explained that NDR income was down 50% and was prevalent on how businesses were affected during the pandemic when a lot of businesses were given rate relief. The Council usually collected approximately £80m but this was split 50/50 with the Government, however as the Council's £40m was still needed the Government took a reduction and gave the Council a grant.

15.11 **RESOLVED:**

That the contents of the draft 2020/21 statement of accounts be noted.

16 **Third line assurance: External Audit: Audit Plan**

16.1 Members received the report of the External Auditor (copy attached to the signed minutes) which provided an overview of the planned scope and timing of the statutory audit of Shropshire Council

16.2 The External Auditor drew attention to the significant risks identified including the risk that revenue may be misstated (and although rebutted, it was confirmed that External Audit would undertake a significant level of work around this), the valuation of PPE (land and buildings) for which External Audit would appoint their own expert to assist, and the valuation of the net pension fund liability.

16.3 The External Auditor highlighted the other risks set out on page 9 of his report and the other work to be undertaken (page 13). Turning to Materiality, it was confirmed that the levels were similar to previous years and that any changes would be reported in the Audit findings report. The External Auditor explained the revised approach to Value for Money work whereby they had to consider whether the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and whether there were any significant weaknesses.

16.4 Finally, the External Auditor drew attention to the proposed increase in fees set out on page 18 of the report. In response to a query, he confirmed that in the normal cycle, the Audit Plan would be presented to Committee in March, with a progress report in June followed by the Audit findings report in September. Following on from the Value for Money work, an annual report would be produced and presented to Committee in December.

16.5 **RESOLVED:**

That the contents of the report be noted.

17 Third line assurance: External Audit: Informing the audit risk assessment for Shropshire Council 2020/21

17.1 Members received the report of the External Auditor (copy attached to the signed minutes) which updated the Committee on some important areas of the auditor risk assessment where External Audit were required to make inquiries of the Audit Committee under auditing standards.

17.2 **RESOLVED:**

That the contents of the report be noted

18 Third line assurance: External Audit: Shropshire Pension Fund audit plan

18.1 Members received the report of the External Auditor (copy attached to the signed minutes) which provided a copy of the external audit plan for the Shropshire County Pension Fund. The External Auditor explained that the Pension Committee were responsible for approving the Pension Fund audit plan which formed part of the Council's accounts and formed part of the Audit Committee's assurance to Council.

18.2 **RESOLVED:**

That the contents of the report be noted.

19 Date and Time of Next Meeting

19.1 Members were advised that next meeting of the Audit Committee would be held on the 16 September 2021 at 10.00 am.

20 Exclusion of Press and Public

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

21 Exempt Minutes

21.1 **RESOLVED:**

That the Exempt Minutes of the meeting of the Audit Committee held on the 4 March 2021 be approved as a true record and signed by the Chairman.

22 **Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)**

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

22.2 **RESOLVED:**

That the contents of the report be noted.

Signed .... (Chairman)

Date: ....

Committee and Date	Item
Audit Committee –16th September 2021	

RISK MANAGEMENT ANNUAL REPORT 2020/2021

Responsible Officer
e-mail: Angela.beechey@shropshire.gov.uk Tel: 01743 252073

1. Synopsis

1.1 This report provides an overview of the activity of Risk, Insurance & Resilience Team during 2020/2021 and a synopsis of the current risk exposure of the authority in relation to Strategic, Operational and Project risks. It also identifies some key activity for 2021/2022**.**

2. Executive Summary

2.1 This report sets out the challenges and achievements accomplished by the Risk, Insurance & Resilience Team during 2020/2021. The team includes business continuity management and emergency planning and as a result we have experienced an unprecedented workload due to significant weather events and the recovery to and response from Covid-19.

2.2 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

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

5. Financial Implications

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

6. Climate Change Appraisal

6.1. The information contained within this report does not impact negatively on our climate change agenda.

6.2 Climate Change is one of the Council's strategic risks. It is subject to regular review alongside all other strategic risks with clearly identified controls and additional controls for mitigation.

7. Background

7.1. The Audit Team undertook a risk management audit for 2020-2021 and we are pleased to confirm that the final report again identified the assurance level as "**Good**".

7.2. The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and endorsed by the Chief Executive. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

8. Additional Information – Risk Management

8.1. Strategic Risk Management

8.1.1 Throughout 2020/2021 our strategic risks were reviewed on a quarterly basis ensuring that the level of risk exposure was monitored closely in our rapidly challenging and changing environment. The outcome of each review is reported to Executive Directors and Informal Cabinet.

8.1.2 The Risk Profile & Action Plans for managing our strategic risks are embedded in the Risk Management SharePoint system. This allows the risks to be updated as frequently as required. The risk profile and action plans detail the direction of travel for each strategic risk over the year, a target risk score for the year end and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged

8.1.3 During the year a detailed review is undertaken with Executive Directors to ensure that our current strategic risks are still relevant, defined appropriately and accurately assessed and scored. Due to the Covid-19 response, this detailed review has been postponed to October this year.

8.1.4 Reviews of the additional controls are undertaken by all additional control owners to ensure that these are appropriate to mitigate the associated strategic risk. This includes clearly defining the required additional controls and ensuring realistic timescales are applied for delivery of these.

8.1.5 Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes. This demonstrates that we are managing these Outcomes at a strategic level.

8.1.6 During 2021/2022 it is our intention to link all strategic risks to the new organisational principles.

8.1.7 The diagram in **Appendix A** demonstrates our overall strategic risk exposure as at June 2021 (the next review takes place during September 2021).

8.1.8 As at the June 2021 review, there were 16 strategic risks on the strategic risk register, and these are each managed by specific Executive Directors. These are detailed in **Appendix B**.

8.1.9 Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.

8.2 Operational Risk Management

8.2.1 Operational risks are reviewed on a bi-annual basis. These risks are also embedded into a specific Risk Management SharePoint site which enables risks to be more pro-actively managed in a 'live' environment enabling PowerBI reports to be run with current data.

8.2.2 Following the bi-annual review of operational risk exposure (May and November), 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.

8.2.3 Emerging operational risks, or themes, feed into and are considered as part of the strategic risk review. Strategic risks have been added to the strategic risk register as a result of risks raised through operational risk reviews (e.g. Mental Health & Wellbeing of Staff).

8.2.4 Currently there are 128 operational risk registers in place across the authority containing 1,299 risks in total. The diagram in **Appendix C.** demonstrates our current overall operational risk exposure.

8.2.5 On an annual basis we contribute to the Horizon Scan Report (Business Continuity Institute) and share key outputs from both this report and from the Global Risks Report (World Economic Forum) with both operational and strategic risk leads.

8.3 Project Risk Management

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

8.3.2 A risk register is developed at the commencement of projects 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.

8.3.3 PowerBI reports are available on current risk exposure across any project. Current project risk exposure is demonstrated in **Appendix D**.

8.4 Opportunity Risk Management Strategy

8.4.1 The Opportunity Risk Management Strategy is reviewed and updated on an annual basis. The strategy was last reviewed and signed off by the Chief Executive on 19th January 2021.

8.4.2 The team continue to be involved in the activities of Alarm, both nationally and regionally, which puts the authority at the forefront of Risk, Insurance & Resilience for developing best practice. Jane Cooper is current Chair of the Midlands Alarm Steering Committee and sits on the Alarm Advisory Group.

8.5 **Additional Information - Business Continuity Management**

8.5.1 With the many challenges faced and continuing during the year, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel to respond and that these people are trained appropriately.

8.5.2 Our enhanced business continuity management arrangements 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.

8.5.3 To respond to Covid-19 a Business Continuity group, chaired by Angela Beechey, was set up comprising senior managers and assistant directors to lead the response to the challenges faced.

8.5.4 A Shropshire Council Covid-19 Response & Recovery Plan has been developed by the team which identifies operational operating frameworks in the recovery from Covid-19 across all key service areas. This was signed off by the Chief Executive on the 27th April 2021. A council Recovery Co-ordinating Group sits regularly to ensure a robust response to Covid by the council.

8.5.5 To support our business continuity management arrangements, regular testing to ensure the plans are robust is undertaken. However, this year has seen unprecedented major incident critical responses and as a result no exercising has been undertaken or necessary. Exercising will be reinstated during 2022.

8.5.6 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We were due to hold the team's inaugural 'Shropshire Resilience Conference' in May 2020. This was open to all local businesses and included speakers and exhibitors to support resilience and recovery arrangements for local business. Unfortunately, due to Covid-19 this has been postponed to May 2022. We are however offering a free virtual lite resilience conference to businesses in October 2021 and are currently finalising speakers and working closely with the Growth Hub Team.

8.6 **Additional Information – Emergency Planning**

8.6.1 2020/2021 continued to be a challenging period where emergency response plans, both council and multi-agency, were solidly tested. The Emergency Planning team is a small team not only representing the Council but also assisting the wider Local Resilience Forum (LRF) response.

8.6.2 The main focus remains with the continuing response of Covid-19 impacts and the transition to a new normal. Other key response plans have been adjusted and updated to reflect the new operating measures. As we move into a new way of working, further adjustments are expected to be made to the response plans.

8.6.3 This year we have been unable to schedule exercises within the council or with the wider LRF partnership due to the floods and Covid-19 responses. However, both incidents were and are of such impact that they have exercised our plans well and as a result of the learning, many plans have had major revisions and continue to evolve. These include the Council's Emergency Response Plan, Recovery Plan, the multi-agency Flood Plan and the joint Shropshire and Telford and Wrekin Excess Deaths Plan. A Severe Weather Plan is being drafted as a result of the previous flooding events. Lessons learned from the 2020 floods were taken on board and put into practice in the 2021 floods, resulting in a more coordinated and effective response from the Council.

8.6.4 We continue to support the Flood Risk Management Team, The National Flood Forum and the Environment Agency in the recovery efforts from the 2020/2021 flood events. New Community Flood Action Groups are being launched with local emergency flood plans being developed and new local partnerships being formed to enable us to work better together in a flood event to support affected communities.

8.6.5 We successfully implemented the Forth Bridge Protocol (protocol for the death of HRH Prince Phillip). This has also provided an opportunity for further refinements to the main London Bridge Protocol (death of HRH The Queen).

8.6.6 Beginning September 2021, we will be fully supporting the Council to plan the Queen's Baton Relay for the Commonwealth Games in 2022. This will require multi-agency engagement and involvement on the day.

8.7 Audit Team Collaborative Working

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

8.8 Risk Management & Business Continuity Training

8.8.1 We continue to provide risk management and business continuity training opportunities for all colleagues (and where requested, schools) as and when required. This year however, this has been provided virtually through online presentations.

8.9 External Work

8.9.1 We continue to work to develop commercial relationships with external colleagues and organisations. As a result of Covid-19, this has been paused however, this will be reinstated in due course.

8.9.2 Following the 'Shropshire Resilience Virtual Conference 2021' and 'Shropshire Resilience Conference 2022', we anticipate there being an additional call upon the services the team can offer, and this will increase income generating opportunities.

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

9. Conclusions

9.1 The Risk, Insurance & Resilience Team has continued to support all services across the authority, especially during this extremely challenging period of significant weather events and in its continued response to, and recovery from the Covid-19 Pandemic.

9.2 Despite the challenges of the last year, the team has continued to embed Opportunity Risk Management and has developed risk management functionality with the SharePoint system and migrated all risks (Strategic, Operational and Project) into it, enabling 'real-time' reporting through PowerBI to take place.

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

Annual Governance Statement

Risk Management Audit Report

Opportunity Risk Management Strategy

Business Continuity Management Policy

Business Continuity Plan

Covid-19 Resilience & Response Plan

Cabinet Member (Portfolio Holder)
Gwilym Butler, Portfolio Holder for Resources

Local Member
N/A

Appendices

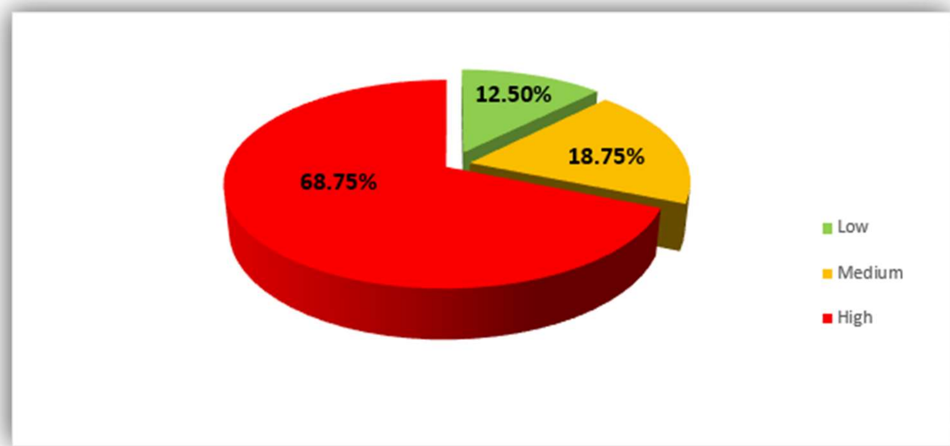
Appendix A – Strategic Risk Exposure (June 2021)

Appendix B – Strategic Risk List (June 2021)

Appendix C – Operational Risk Exposure

Appendix D – Project Risk Exposure

APPENDIX A – STRATEGIC RISK EXPOSURE (JUNE 2021)

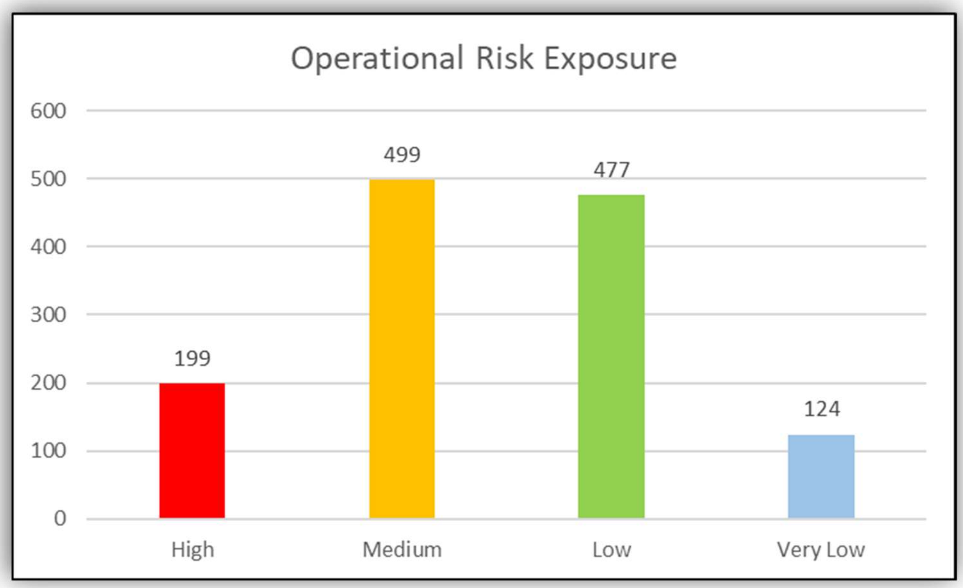


APPENDIX B – STRATEGIC RISK LIST (JUNE 2021)

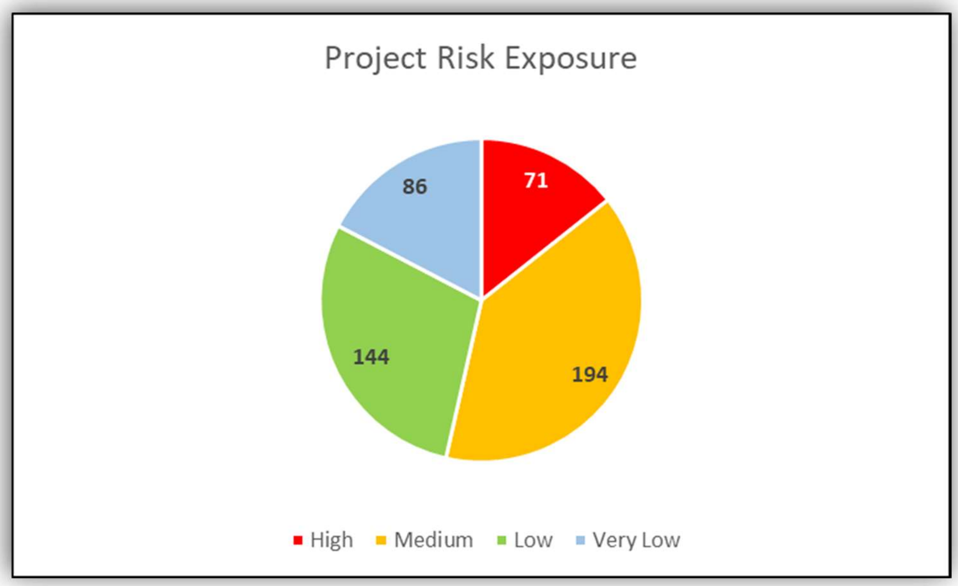
Risk	Risk Owner	L	I	Status
Ability to fund Adult Services	Tanya Miles	5	5	25
Ability to fund Children's Services	Karen Bradshaw	5	5	25
Cyber & ICT Infrastructure Resilience	James Walton	5	5	25
Safeguarding Vulnerable Children	Karen Bradshaw	5	4	20
Commercial Strategy	Mark Barrow	4	4	16
Climate Change	Mark Barrow	4	4	16
Economic Growth Strategy	Mark Barrow	4	4	16
Covid-19	Andy Begley	4	4	16
Brexit	Mark Barrow	4	4	16
Balanced Budget	James Walton	5	3	15
Mental Health & Wellbeing of Staff	James Walton	5	3	15
Governance	James Walton	4	3	12
Reputation	James Walton	2	4	8
Strategic Vision & Strategy	Andy Begley	2	4	8
Safeguarding Vulnerable Adults	Tanya Miles	2	3	6
Deprivation of Liberty (DoL)	Tanya Miles	2	3	6

High Risks
Medium Risks
Low Risks

APPENDIX C – OPERATIONAL RISK EXPOSURE



APPENDIX D – PROJECT RISK EXPOSURE



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Committee and Date	Item
Cabinet 08 September 2021 Audit Committee 16 September 2021 Council 23 September 2021	Public

ANNUAL TREASURY REPORT 2020/21

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

1. Synopsis

As at 31.03.21 the Council held £148m investments and £304m borrowing. This report shows the borrowing & investment strategy, outturn for 2020/21 and investment performance of the internal treasury team, confirming activities align with the approved Treasury Management Strategy.

2. Executive Summary

2.1. The report informs members of treasury activities for Shropshire Council for 2020/21, including the investment performance of the internal treasury team to 31 March 2021. The internal treasury team outperformed their investment benchmark by 0.47% in 2020/21 and performance for the last three years is 0.40% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.

2.2. During 2020/21 the performance of the Treasury Team delivered an under spend of £3.21 million compared to budget as highlighted in paragraph 5.2 of this report. This was mainly due to Minimum Revenue Provision (MRP) savings following the Council's review of the policy and interest payable savings as no borrowing was undertaken.

2.3. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

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

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

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

5. Financial Implications

5.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

5.2. The 2020/21 performance is above benchmark for the reasons outlined in paragraph 2.2 of this report and has delivered additional income of £3.21 million which has been reflected in the final Revenue Monitor report for 2020/21.

6. Climate Change Appraisal

6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no climate change impacts arising from this report.

7. Background

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

7.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

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

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

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

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

7.6. The Treasury Strategy for 2020/21 was approved by Council in February 2020, the mid-year treasury update report was approved by Council in December 2020. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

8. Borrowing Strategy and Outturn for 2020/21

8.1. The Council's Borrowing Strategy and Outturn position for 2020/21 can be found in Appendix C.

9. Debt rescheduling

9.1. No debt restructuring was undertaken during 2020/21. Further information is included within Appendix C.

10. Investment Strategy & Outturn for 2020/21

10.1. The Council's Investment Strategy and Outturn position for 2020/21 can be found in Appendix C.

11. Compliance with Treasury Limits and Prudential Indicators

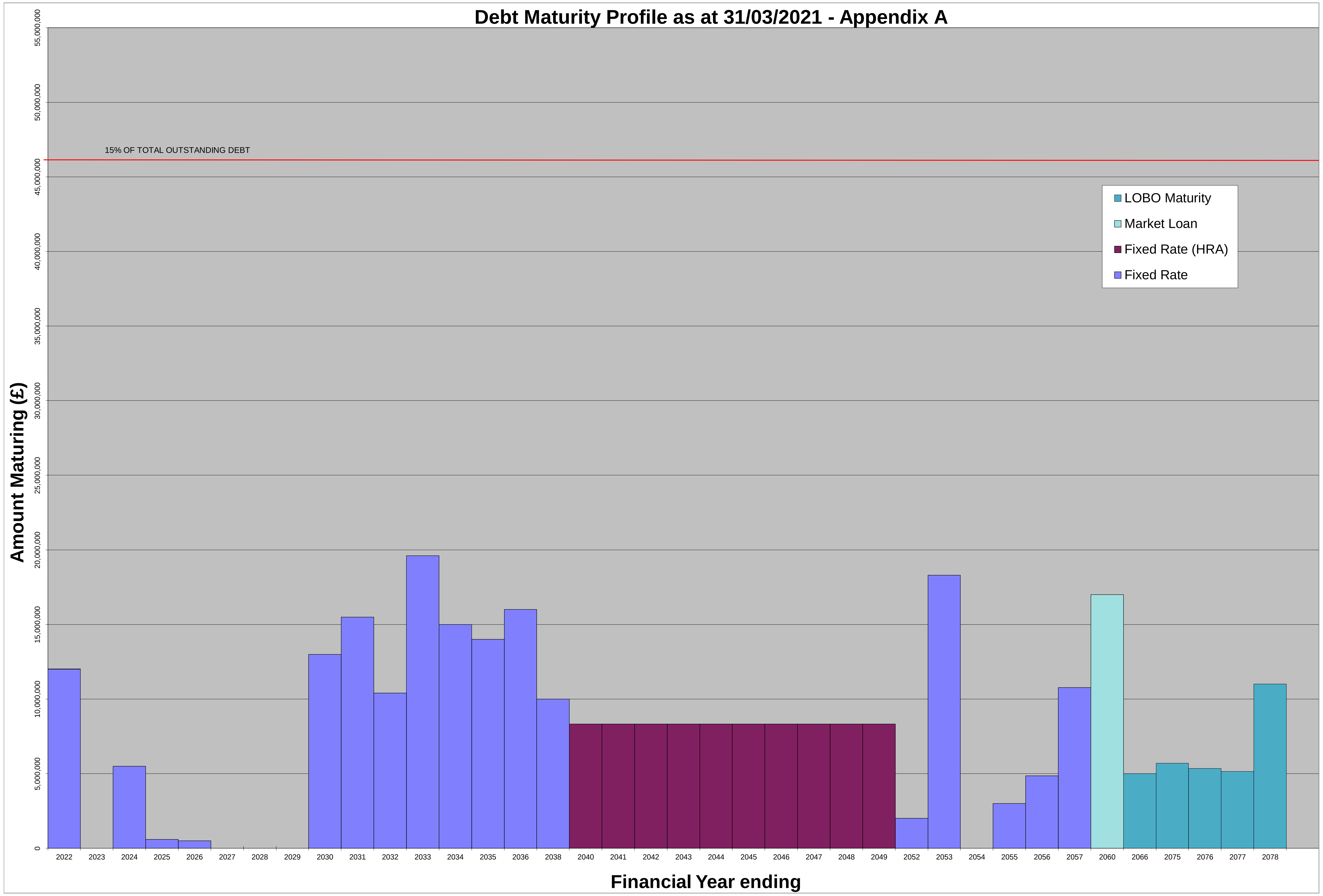
11.1 Compliance with the Council's Treasury Limits and Prudential Indicators can be found in Appendix B & C.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Council, February 2020, Treasury Strategy 2020/21. Council, December 2020, Treasury Strategy 2020/21 Mid-Year Review. Council, February 2021, Treasury Strategy 2021/22. Cabinet, September 2020, Treasury Management Update Quarter 1 2020/21. Cabinet, December 2020, Treasury Management Update Quarter 2 2020/21. Cabinet, February 2021, Treasury Management Update Quarter 3 2020/21. Cabinet, July 2021, Treasury Management Update Quarter 4 2020/21.
Cabinet Member: Gwilym Butler, Portfolio Holder for Resources
Local Member N/A
Appendices A. Debt Maturity Profile as at 31 March 2021 B. Prudential Indicators 2020/21 C. Council's Borrowing & Investment Strategy and Outturn Position 2020/21

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fixed Rate	12,000,000	0	5,500,000	600,000	500,000	0	0	0	13,000,000	15,487,000	10,400,000	19,600,000	15,000,000
Fixed Rate (HRA)													
Market Loan													
LOBO Maturity													
	24264	0	11132	1215	1013	0	0	0	26390	31454.097	21132.8	39846.8	30510

	2035	2036	2038	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Fixed Rate	14,000,000	16,000,000	10,000,000										
Fixed Rate (HRA)				8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000
Market Loan													
LOBO Maturity													
	28490	32576	20380	17003.4	17011.735	17020.07	17028.405	17036.74	17045.075	17053.41	17061.745	17070.08	17078.415

	2052	2053	2054	2055	2056	2057	2060	2066	2075	2076	2077	2078			
Fixed Rate	2,000,000	18,300,000	0	3,000,000	4,853,693	10,777,000									
Fixed Rate (HRA)															
Market Loan							17,000,000								
LOBO Maturity								5,000,000	5700000	5350000	5150000	11000000	PWLB	LOBO	**303,567,693**
													Av period	Av period	
	4104	37569.9	0	6165	9979.193	22168.289	35020	10330	11827.5	11106.6	10696.55	22858	2040	2070	



APPENDIX B

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2020/21

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

C2. The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2020/21 due to net revenue stream being higher than estimated.

Prudential Indicator	2020/21 Revised Estimate	2020/21 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	9.1	6.9

Prudential Indicator	2020/21 Revised Estimate	2020/21 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	8.4	6.5
HRA Ratio of financing costs to HRA net revenue stream	38.0	38.0

C3. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2020/21.

Prudential Indicator	2020/21 Estimate	2020/21 Actual
External Debt	**£m**	**£ m**
Authorised Limit:		
Borrowing	568	304
Other long-term liabilities	97	99
Total	**665**	**403**

Prudential Indicator	2020/21 Estimate	2020/21 Actual
External Debt	**£ m**	**£ m**
Operational Boundary: Borrowing Other long-term liabilities	 475 97	 304 99
Total	**572**	**403**

C4. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2020/21. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator.

Prudential Indicator	2020/21 Estimate	2020/21 Actual
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**
Gross Borrowing (inc. HRA)	304	304
Investments	110	148
Net Borrowing	**194**	**156**
Non HRA Capital Financing Requirement	390	273
HRA Capital Financing Requirement	95	85
Total CFR	**485**	**358**

C5. Non HRA was higher and HRA capital expenditure was lower than anticipated during the year. Explanations for these under/overspends were included in the 2020/21 final capital outturn report.

Prudential Indicator	2020/21 Revised Estimate	2020/21 Actual
	£ m	**£ m**
Non HRA Capital expenditure	64.4	66.4
HRA Capital expenditure	22.3	4.5

C6. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

Prudential Indicator	**2020/21 Estimate**	**2020/21 Actual**
Upper Limit for Fixed/Variable Rate Borrowing	**£ m**	**£ m**
Fixed Rate (GF)	531	304
Variable Rate	266	0

C7. The level of fixed rate and variable rate investments were within the approved limits during 2020/21.

Prudential Indicator	**2020/21 Estimate**	**2020/21 Actual**
Upper Limit For Fixed/Variable Rate Investments	**£ m**	**£ m**
Fixed Rate	220	115
Variable Rate	220	33

C8. Longer term investments were held at the year-end due to the investment in Shrewsbury Shopping Centres.

Prudential Indicator	**2020/21 Estimate**	**2020/21 Actual**
Upper Limit for Sums Invested over 364 days	**£m**	**£m**
Internal Team	50	0
External Manager	30	0
Shrewsbury Shopping Centres	90	0

C9. The maturity profile was within the limits set in the Treasury Strategy.

Prudential Indicator	2020/21 Upper Limit	2020/21 Actual
Maturity Structure of External Borrowing	**%**	**%**
Under 12 months	15	4
12 months to 2 years	15	0
2 years to 5 years	45	2
5 years to 10 years	75	9
10 years to 20 years	100	34
20 years to 30 years	100	22
30 years top 40 years	100	18
40 years to 50 years	100	2
50 years and above	100	9

Appendix C

Borrowing Strategy for 2020/21

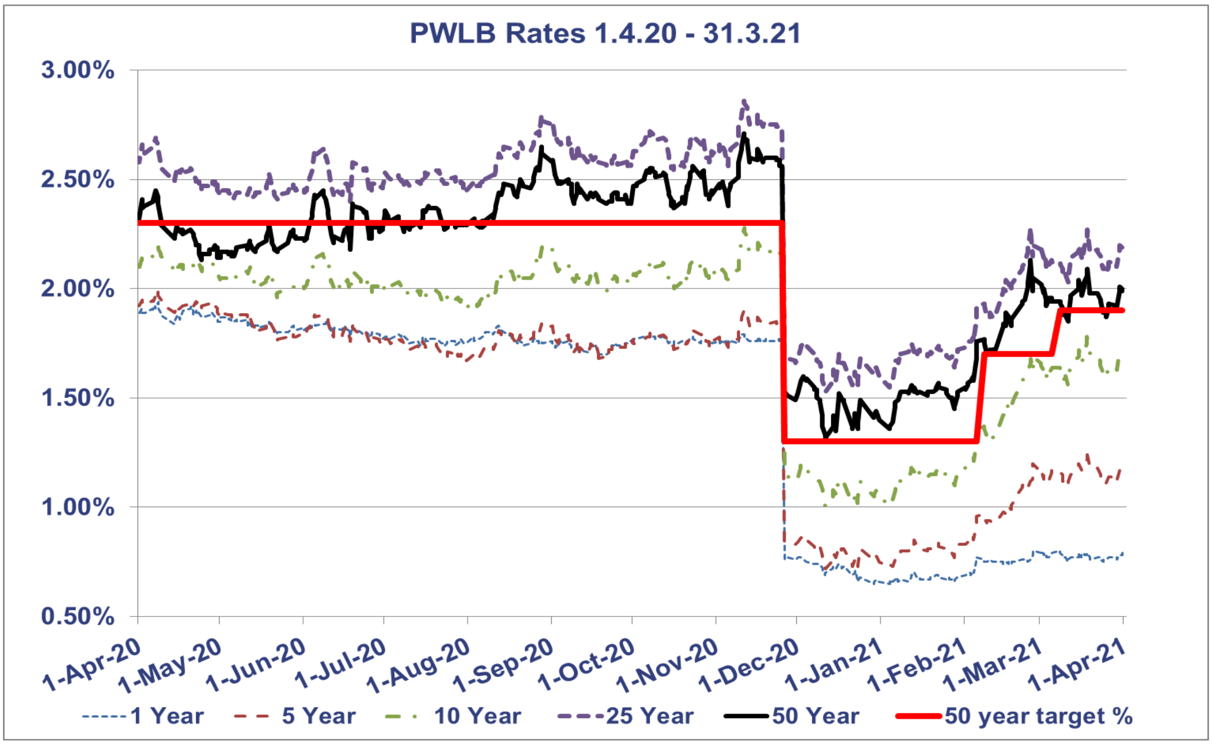
The Council's only borrowing requirement identified within the Capital Programme 2019/20 to 2021/22 was self-financing prudential borrowing of £6.030m therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

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

An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

Borrowing outturn for 2020/21

The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2020/21 are shown in the graph below.



Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

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

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
Date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2020/21.

The Council's total debt portfolio at 31 March 2021 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2020/2021
General Fund Fixed rate – PWLB	171.02	5.01%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 19 years, market loans have an average debt period of 49 years. The total debt portfolio has a maturity range from 1 year to 57 years.

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

Debt rescheduling

No debt restructuring was undertaken during 2020/21. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

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

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

Investment Strategy for 2020/21

Our treasury advisor originally felt when the strategy was approved by Council in February 2020 that the bank rate would remain at 0.75% during 2020/21. These forecasts factored in the uncertainty surrounding the future of the trading relationship between the UK and EU, and an agreed deal on Brexit, including agreement on the terms of trade. It was not expected the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.25% in 2022/23. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. The Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, where it has remained. Consequently, our treasury advisor's interest rate forecast was reviewed, and their updated forecast was approved by Council in December 2020 as part of the mid-year report. Their revised forecast took account of the expectation that Bank Rate would stay at 0.10% during 2020/21.

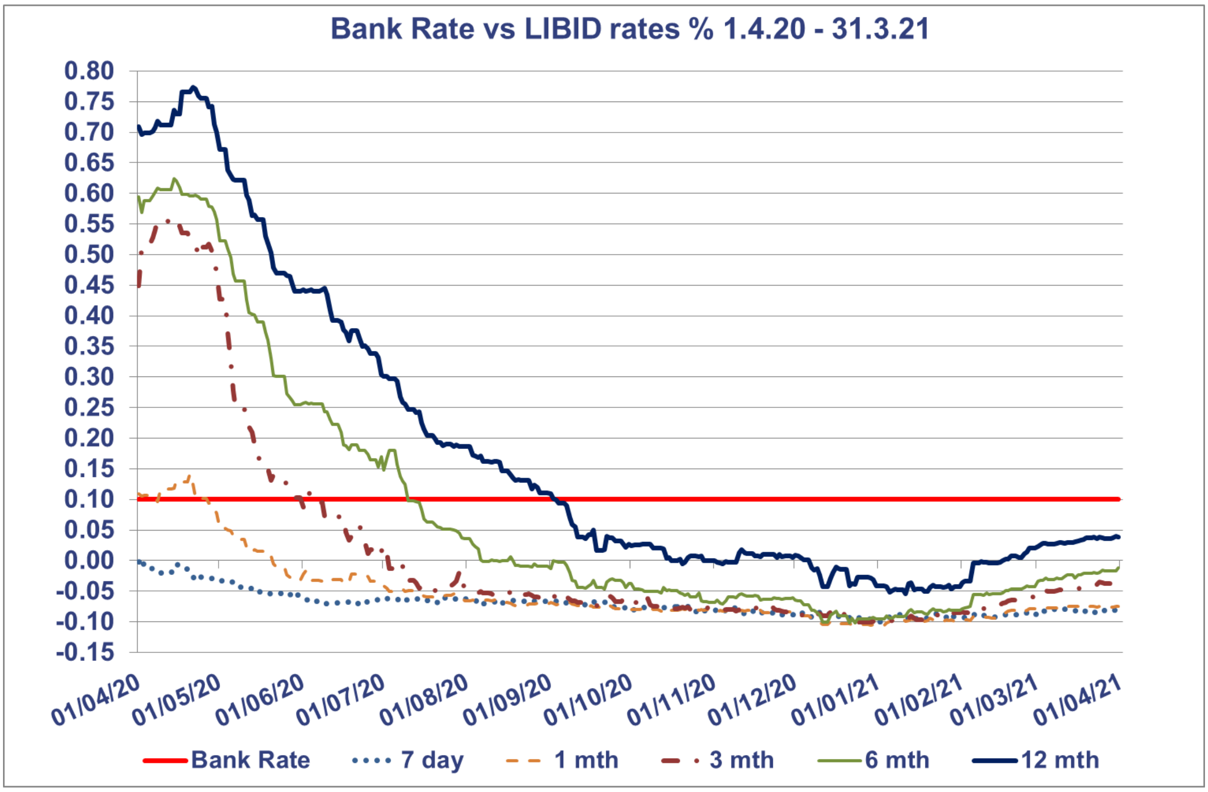
In 2020/21 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

Investment outturn 2020/21

The rates forecast, detailed in 10.1, was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

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

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



Throughout the year the average interest rate earned on investments was supressed due to unexpected cuts to bank rate, in response to the Covid 19 pandemic. This resulted in the internal treasury team achieving a lower level of interest on revenue balances than budgeted. This lower than projected amount earned on investments was offset by an under-spend on debt charges due to no long-term general fund borrowing being undertaken in 2020/21. The total £3.21 million underspend was mainly due to MRP savings following a review of the Council's policy and interest payable savings.

At 31 March 2021 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	62.8
• In-house long dated deposits (up to 1 year)	12.0
• Other Local Authorities	73.0
Total	**147.8**

The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2021. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2020/21	**Return 3 years to 31 March 2021**
	%	**% p.a.**
Internal Treasury Team	0.40	0.72
Benchmark (7 Day LIBID rate)	-0.07	0.32

The conclusions to be drawn from the table are:

- During 2020/21 the internal treasury team outperformed their benchmark by 0.47%.

- Over the 3 year period the internal team's performance has been 0.40% per annum above the benchmark.

Compliance with Treasury Limits and Prudential Indicators

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

Appendix B shows the Prudential Indicators approved by Council as part of the 2020/21 and 2021/22 (revised estimate) Treasury Strategies compared with the actual figures for 2020/21. In summary, during 2020/21 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

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Committee and Date	Item
Audit Committee 16th September 2021 10:00am	Public

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2021/22

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

1 Synopsis

1.1 This report summarises Internal Audit's work to date in 2021/22. Delivery is lower than normal, and the plan is adjusted to reflect the impact of vacancies and support to COVID activities. Lower assurances are highlighted, providing members with an opportunity to challenge further.

2. Executive Summary

2.1 This report provides members with an update of work undertaken by Internal Audit in the first four and a half months of Shropshire Council's approved audit plan, 2021/22. Thirty two percent of the revised plan has been completed (**see Appendix A, Table 1**), which is slightly below previous delivery records. This reflects both the continuing impact COVID had on Internal Audit resources at the beginning of the year, these pressures have now come to an end, and vacancies.

2.2 Four good, ten reasonable and two unsatisfactory assurance opinions have been issued. The 16 final reports contained 98 recommendations, five of which were fundamental.

2.3 This report proposes significant revisions in the coverage of planned activity for Shropshire Council with a reduction of 203 days from 2,000 days, as reported in March 2021, to 1,797 days. Changes to the planned activity reflect adjustments taking in both risks and a reduction in available resources, recruitment delays and initially at the start of the year, the continuing impact of COVID on both the service and the client; the changes have been discussed with, and agreed by, the Section 151 Officer.

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

3 Decisions

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

3.1 The performance to date against the 2021/22 Audit Plan.

3.2 The adjustments required to the 2021/22 plan to take account of changing priorities set out in **Appendix B** and to,

3.3 Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations brought to Members' attention.

REPORT

4 Risk Assessment and Opportunities Appraisal

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

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

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

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

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

5 Financial Implications

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

6 Climate Change Appraisal

6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. Therefore, no effect.

7 Background

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

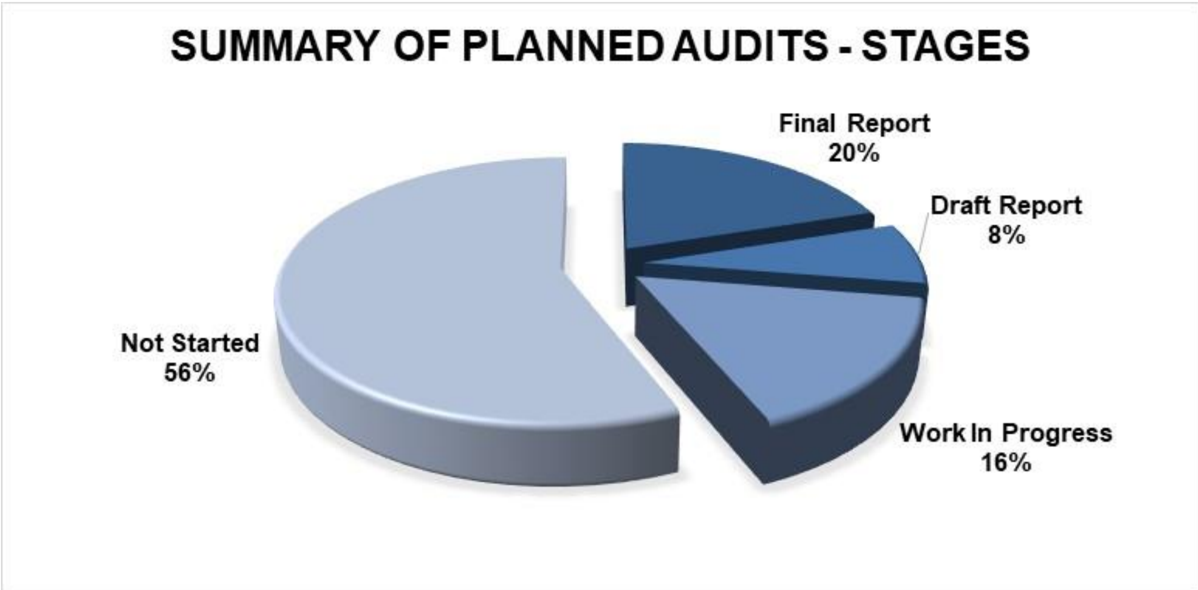
7.2 The 2021/22 Internal Audit Plan was presented to, and approved by, members at the 4th March 2021 Audit Committee, with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 8th August 2021 and includes revisions to the plan.

8 Performance against the plan 2021/22

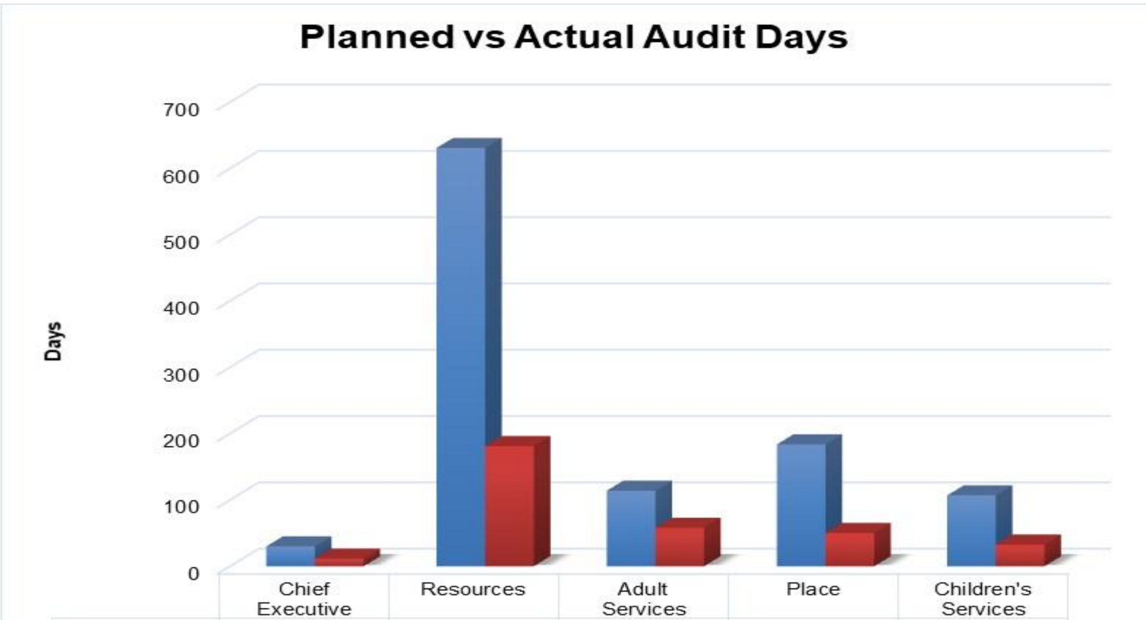
8.1 Revisions to the 2021/22 plan provide for a total of 1,797 days following the resignation of two members of the team, delays experienced in recruiting staff, a continuing commitment at the beginning of the year of Audit resources to the Council's COVID response and agreement to deliver services to a new client. Performance to date as a result is slightly below previous delivery records at 32% (36% 2020/21) but overall, the team is on track to deliver a minimum of 90% of the revised annual plan by the year end.

8.2 The profiling of planned work has been adjusted to allow for delivery of external customer audits ahead of time. This will allow enough resources in the final quarter of the Shropshire Council plan for fundamental/ key system reviews to be conducted and increased time for system owners to introduce and embed control improvements. An Auditor is focused on a fraud pilot, the results of which will be brought to a future meeting and the team is completing more added value at both corporate and service levels compared to assurance work currently which is reflecting the agility of the auditors to respond to the changing needs of the Council. As remote working becomes the norm, the impact of management overheads can be measured more accurately and demonstrates additional time on engagement meetings, increased frequency of team and individual catch ups, and all staff have been encouraged to allow time for wellbeing activities.

8.3 In total, 16 final reports have been issued in the period from 1st April to 8th August 2021. All are listed with their assurance rating and broken down by service area at **Appendix A table 2**. The following chart shows performance against the approved Internal Audit Plan for 2021/22:



8.4 Audits have been completed over several service areas as planned:



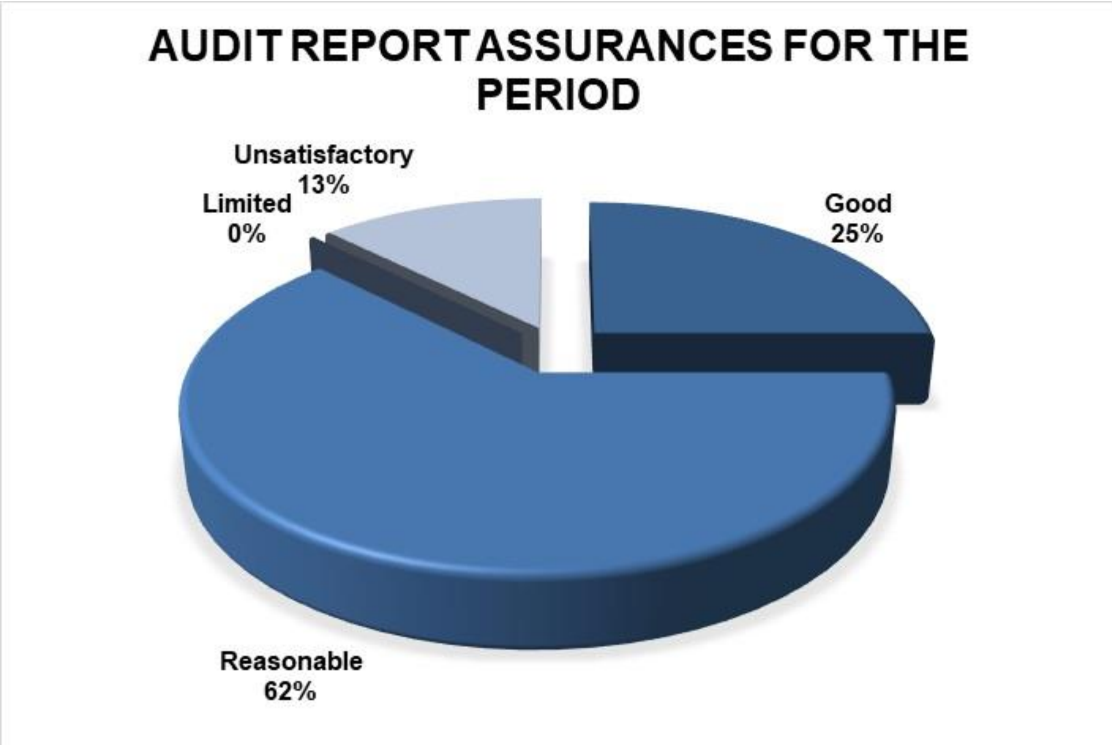
	Chief Executive	Resources	Adult Services	Place	Children's Services
Planned Days	30	631	114	184	107
Actual Days	11.6	181.3	58.1	50.2	32.7

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

- Corporate Governance

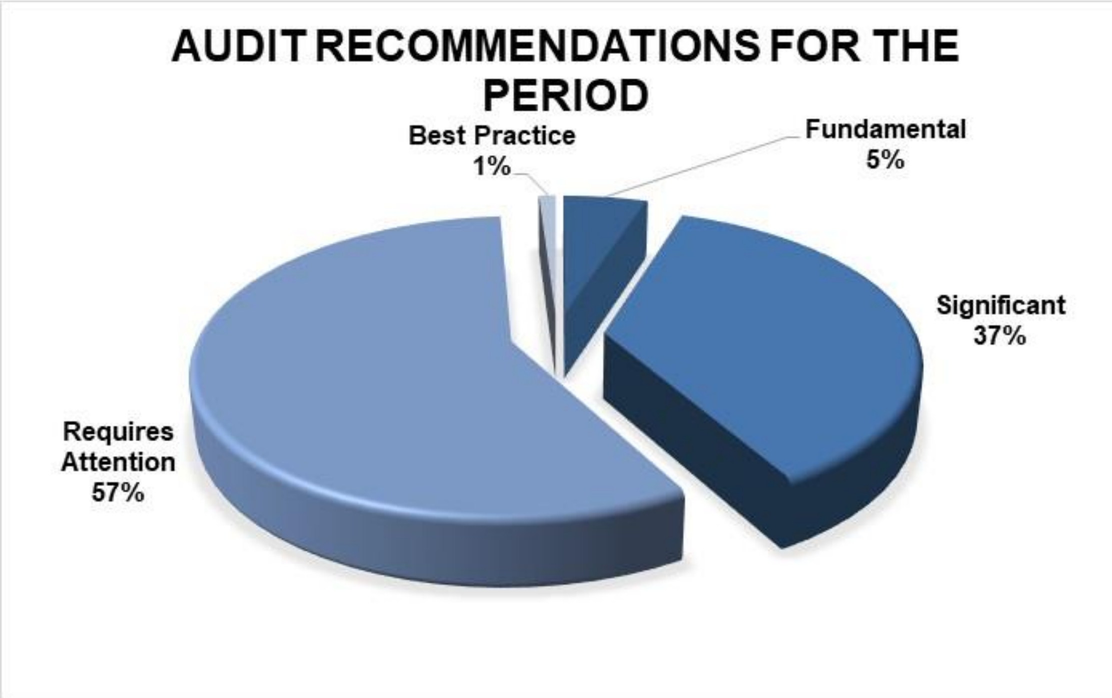
- CM2000[1] Decommissioning
- Parking Cash Collection
- Tree Safety
- Housing Strategy
- Trinity Primary School
- Supporting Families
- Comino[2] Application
- Adobe Sign
- COVID Test and Trace Grants
- Apprenticeship Levy
- COVID PPE Procurement and Allocation
- Internet Security
- Digital Mailroom Project
- IT Change Management
- Members Allowances

8.6 The assurance levels awarded to each completed audit area appear in the graph below:



[1] CM2000 is an electronic homecare monitoring system that was used by Adult Services
[2] Comino is an Electronic Document and Records Management System, primarily used within Revenues and Benefits.

8.7 The overall spread of recommendations agreed with management following each audit review are as follows:



8.8 At this stage it is difficult to look for or rely on any patterns from the overall data which is limited; the mix of audit reviews completed varies to previous years and there is no strong pattern of areas attracting lower assurance levels. Up to the 8th August 2021, 14 reports have been issued providing good or reasonable assurances and accounting for 87% of the opinions delivered. This represents a significant increase in the higher levels of assurance for this period, compared to the previous year outturn of 57%. This is offset by a corresponding decrease in limited and unsatisfactory assurances, currently 13% compared to the previous year outturn of 43%. Audit reviews for fundamental systems have yet to be repeated and those areas of lower assurance are attracting fundamental recommendations.

8.9 Details of control objectives evaluated and not found to be in place as part of the planned audit reviews that resulted in limited and unsatisfactory assurances, appear in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.

8.10 Six draft reports, awaiting management responses, will be included in the next performance report. Work has also been completed for external clients in addition to the drafting and auditing of financial statements for several honorary funds and the certification of grant claims.

8.11 A total of 98 recommendations have been made in the 16 final audit reports issued this year; these are broken down by audit area and appear in

Appendix A, Table 7. Five fundamental recommendations have been identified the details of which will be considered in the exempt part of the agenda.

8.12 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach adopted to following up recommendations** highlighting Audit Committee's involvement.

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

- **IIA COVID assessment** – A review of the Council's governance risk management approach during the Coronavirus pandemic against a framework from the Institute of Internal Auditors (IIA).
  The review considered knowledge gained through Internal Audit's participation in various activities during the pandemic and discussions with management. It assessed whether current and future risks had been identified and considered whether the Council's business continuity planning is appropriate. It noted that recovery plans were well underway with the lessons learnt from the processes captured to inform future responses and improve the speed at which the Council could mobilise if required going forward.
- **Purchase to pay outstanding order balances** - data analytics provided information on orders which were not being cleared from the financial system when the invoice had been received and paid. These had built up during a period when it was not a requirement to have an electronic order for payment of invoices, the system has since change.
- **Business grants** – Work had continued to provide financial and suitability checks on COVID business grant claimants; reducing the risk of fraudulent, duplicate or claims made in error.
- **Adult Social Care COVID grants** – A review of governance and reporting arrangements for COVID related grants within adult social care, including the Infection Control and Workforce Capacity grants, to ensure compliance with grant instructions, ensure efficient processes and minimise the risk of fraud.
- **Health check of an operational team within the Council** - Difficulties were reported in respect of workload; capacity; reward; technological system support; relationships; record keeping and prioritisation within a team. The review looked at data, discussed with officers across different systems and considered information around the service to support managers new to the team to baseline the position, have confidence in what was working and consider potential improvements to mitigate risks.
- **Cash collection** – Review of cash collection rates and fees to support the Council's move to digital and cashless transactions.

- **Payroll data analytics** – Review of payroll data to identify gaps and anomalies for addressing, given the system is still embedding, prior to an audit review later in the year.
- **Schools Financial Value Standard** – (SFVS) assessed for maintained schools to inform the programme of financial assessment and audit. Individual SVFS are referred to as part of specific audits, to evaluate their alignment with Audit's independent judgements. Audit informs the governing body and the local authority of any major discrepancies in judgements and follows up on recommendations in line with agreed processes.
- **Schools self-assessment review and feedback** –Annually a sample of schools are asked to complete a controls evaluation self-assessment. The results are reviewed by Internal Audit to inform the annual plan of work and specific feedback provided to schools where appropriate.
- **Community asset grants** – Advice provided into the feasibility work looking at grants for Community Assets.
- **Shirehall system security project** – Input into the project replacing the ID entry system at Shirehall.

Direction of travel

8.14 As noted in paragraph 8.8 above, it is currently too early to reach any sound conclusions on this, in the interim, members are advised to pay initial attention to unsatisfactory assurance areas or fundamental recommendations for updates from management as to improved controls and management of risks.

Performance measures

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

9 Conclusions

9.1 This report summarises Internal Audit's work to date in 2021/22. Delivery is lower than normal, and the plan is adjusted to reflect the impact of vacancies and support to COVID activities. Lower assurances are highlighted, providing members with an opportunity to challenge further.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Draft Internal Audit Risk Based Plan 2021/22 - Audit Committee 4th March 2021 Public Sector Internal Audit Standards (PSIAS)

Audit Management system
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)
Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member: All

Appendices

Appendix A
Table 1: Summary of actual audit days delivered against plan 1st April to 8th August 2021
Table 2: Final audit report assurance opinions issued in the period 1st April to 8th August 2021
Table 3: Unsatisfactory and limited assurance opinions in the period 1st April to 8th August 2021
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Audit recommendations made in the period 1st April to 8th August 2021
Table 8: Recommendation follow up process (risk based)

Appendix B - Audit plan by service 1st April to 8th August 2021

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 8th August 2021

	Original Plan	Revised Plan	8th August 2021 Actual	% of Original Complete	% of Revised Complete
Chief Executive	36	30	11.6	32%	39%
Resources	769	631	181.3	24%	29%
Finance	512	371	108.1	21%	29%
Workforce and Development	68	65	19.5	29%	30%
Business Intelligence	189	195	53.6	28%	27%
Legal and Democratic	0	0	0.1	0%	0%
Adult Services	160	114	58.1	36%	51%
Social Care	95	74	46.3	49%	63%
Public Health	19	7	0.0	0%	0%
Public Protection	46	33	11.8	26%	36%
Place	195	184	50.2	26%	27%
Children's Services	125	107	32.7	26%	31%
Schools	42	43	22.8	54%	53%
Other	83	64	9.9	12%	11%
S151 Planned Audit	**1,285**	**1,066**	**333.9**	**26%**	**31%**
Contingencies and other chargeable work	493	480	200.1	41%	42%
Total S151 Audit	**1,778**	**1,546**	**534.0**	**30%**	**35%**
External Clients	222	251	45.7	21%	18%
Total	**2,000**	**1,797**	**579.7**	**29%**	**32%**

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

Table 2: Final audit report assurance opinions issued in the period from 1st April to 8th August 2021

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	1	0	0	1
Resources	2	6	0	1	9
Finance	1	2	0	0	3
Workforce and Development	1	1	0	0	2
Business Intelligence	0	2	0	1	3
Legal and Democratic	0	1	0	0	1
Adult Services	1	1	0	0	2
Social Care	1	0	0	0	1
Public Health	0	0	0	0	0
Public Protection	0	1	0	0	1
Place	0	1	0	1	2
Children's Services	1	1	0	0	2
Children's Services: Schools	0	1	0	0	1
Children's Services: Others	1	0	0	0	1
Total for 2021/22 to date ➢ **Numbers**	**4**	**10**	**0**	**2**	**16**
➢ **Percentage**	**25%**	**62%**	**0%**	**13%**	**100%**
Percentage 2020/21	**21%**	**36%**	**28%**	**15%**	**100%**
Percentage 2019/20	**15%**	**49%**	**22%**	**14%**	**100%**
Percentage 2018/19	**26%**	**41%**	**27%**	**6%**	**100%**
Percentage 2017/18	**20%**	**44%**	**29%**	**7%**	**100%**

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April to 8th August 2021[3]

Unsatisfactory assurance

Resources: Internet Security (Reasonable 2017/18)

- To ensure that the organisation has established an overall framework/concept of internet threat protection.
- To ensure that there are documented procedures for threat protection. e.g. Security configuration standards.
- To ensure that privileged access to resources is appropriately managed.
- To ensure that monitoring and enforcement of compliance with security standards. (change logs and alerts) processes are in place
- To ensure that threat monitoring/ data exfiltration procedures, resources and reporting are in place.
- To ensure that there is an internet security testing programme in place. e.g. Penetration testing programme.
- To ensure that there are security/Incident Management policies and procedures in place. Procedures are tested using Red Team/Blue Team exercises.

Place: Tree Safety

- There are written policies and procedures in place in relation to tree safety that reflect the requirement of the Health and Safety Executive (HSE) Legislation.
- There is a clear team structure and all officers are adequately qualified to undertake tree safety inspections.
- There are up to date records, monitoring, surveying and risk assessment procedures to control the risk of tree safety.
- There are procedures to monitor the information and reports received from contractors and ensure that where appropriate, remedial works are ordered and carried out on a timely basis.

Limited assurance

There have been no limited assurances in the period.

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

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

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

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

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

Table 6: Glossary of terms

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

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

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

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

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

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

Table 7: Audit recommendations made in the period from 1st April to 8th August 2021

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Resources	0	39	14	2	55
Finance	0	11	6	0	17
Workforce and Development	0	9	2	0	11
Business Intelligence	0	12	3	2	17
Legal and Democratic	0	7	3	0	10
Adult Services	0	5	14	1	20
Social Care	0	0	11	1	12
Public Health	0	0	0	0	0
Public Protection	0	5	3	0	8
Place	0	0	3	2	5
Children's Services	1	12	5	0	18
Children's Services: Schools	1	11	5	0	17
Children's Services: Others	0	1	0	0	1
Total for 2021/22 to date ➢ **Numbers**	**1**	**56**	**36**	**5**	**98**
➢ **Percentage**	**1%**	**57%**	**37%**	**5%**	**100%**
Percentage 2020/21	**1%**	**50%**	**47%**	**2%**	**100%**
Percentage 2019/20	**1%**	**59%**	**39%**	**1%**	**100%**
Percentage 2018/19	**2%**	**60%**	**37%**	**1%**	**100%**
Percentage 2017/18	**3%**	**56%**	**41%**	**3%**	**100%**

Table 8: Recommendation follow up process (risk based)

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

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

APPENDIX B

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL to 8th AUGUST 2021

	Original Plan Days	August Revision	Revised Plan Days	8th August 2021 Actual	% Original	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	36	-6	30	11.6	32%	39%
CHIEF EXECUTIVE	**36**	**-6**	**30**	**11.6**	**32%**	**39%**
RESOURCES						
Finance						
Finance Transactions	66	1	67	1.8	3%	3%
Finance and S151 Officer	265	-108	157	59.0	22%	38%
Financial Management	88	-45	43	0.0	0%	0%
Procurement	48	4	52	31.0	65%	60%
Revenues and Benefits	45	6	51	14.8	33%	29%
Treasury	0	1	1	1.5	0%	150%
	512	**-141**	**371**	**108.1**	**21%**	**29%**
Workforce and Development						
Risk Management and Insurance	7	2	9	8.3	119%	92%
Human Resources	56	-5	51	6.0	11%	12%
Occupational Health and Safety	5	0	5	5.2	104%	104%
	68	**-3**	**65**	**19.5**	**29%**	**30%**
Business Intelligence						
Corporate Performance Management	0	20	20	19.9	0%	100%
ICT	171	-14	157	33.3	19%	21%
Information Governance	18	0	18	0.4	2%	2%
	189	**6**	**195**	**53.6**	**28%**	**27%**
Legal and Democratic						
Committee Services	**0**	**0**	**0**	**0.1**	**0%**	**0%**
RESOURCES	**769**	**-138**	**631**	**181.3**	**24%**	**29%**
ADULT SERVICES						

	Original Plan Days	August Revision	Revised Plan Days	8th August 2021 Actual	% Original	% Revised Plan Achieved
Social Care Operations	**73**	**-32**	**41**	**16.7**	**23%**	**41%**
Social Care Efficiency and Improvement	**22**	**11**	**33**	**29.6**	**135%**	**90%**
Public Health	**19**	**-12**	**7**	**0.0**	**0%**	**0%**
Public Protection						
Environmental Protection and Prevention	0	10	10	9.8	0%	98%
Community Safety	8	-8	0	0.0	0%	0%
	8	**2**	**10**	**9.8**	**123%**	**98%**
Bereavement						
Bereavement Superintendent	15	-15	0	0.0	0%	0%
Registrar	23	0	23	2.0	9%	9%
	38	**-15**	**23**	**2.0**	**5%**	**9%**
ADULT SERVICES	**160**	**-46**	**114**	**58.1**	**36%**	**51%**
PLACE						
Business, Enterprise and Commercial Services						
Housing Services	13	-5	8	4.8	37%	60%
Property and Development	31	3	34	11.7	38%	34%
	44	**-2**	**42**	**16.5**	**38%**	**39%**
Economic Development						
Business Growth and Investment	13	7	20	14.3	110%	72%
Environment and Sustainability	0	1	1	0.8	0%	80%
	13	**8**	**21**	**15.1**	**116%**	**72%**
Infrastructure and Communities						
Highways	76	-13	63	15.3	20%	24%
Library Services	6	0	6	0.0	0%	0%
Public Transport	12	2	14	2.2	18%	16%
	94	**-11**	**83**	**17.5**	**19%**	**21%**
Culture and Heritage						
Theatre Severn and OMH	8	0	8	0.0	0%	0%
Leisure Services	32	-6	26	1.1	3%	4%

	Original Plan Days	August Revision	Revised Plan Days	8th August 2021 Actual	% Original	% Revised Plan Achieved
Visitor Economy	4	0	4	0.0	0%	0%
	44	**-6**	**38**	**1.1**	**3%**	**3%**
PLACE	**195**	**-11**	**184**	**50.2**	**26%**	**27%**
CHILDREN'S SERVICES						
Safeguarding						
Children's Placement Services & Joint Adoption	40	-15	25	0.0	0%	0%
Safeguarding	20	0	20	3.6	18%	18%
	60	**-15**	**45**	**3.6**	**6%**	**8%**
Learning, Employment and Training	**8**	**-8**	**0**	**0.0**	**0%**	**0%**
Learning and Skills						
Business Support	8	0	8	0.7	9%	9%
Education Improvements	7	4	11	5.6	80%	51%
Primary/Special Schools	32	1	33	16.9	53%	51%
Secondary Schools	10	0	10	5.9	59%	59%
	57	**5**	**62**	**29.1**	**51%**	**47%**
CHILDREN'S SERVICES	**125**	**-18**	**107**	**32.7**	**26%**	**31%**
Total Shropshire Council Planned Work	**1,285**	**-219**	**1,066**	**333.9**	**26%**	**31%**
CONTINGENCIES						
Advisory Contingency	60	-10	50	11.6	19%	23%
Fraud Contingency	150	-20	130	30.8	21%	24%
Unplanned Audit Contingency	50	-41	9	0.0	0%	0%
Other non audit Chargeable Work	233	58	291	157.7	68%	54%
CONTINGENCIES	**493**	**-13**	**480**	**200.1**	**41%**	**42%**
Total for Shropshire	**1,778**	**-232**	**1,546**	**534.0**	**30%**	**35%**
EXTERNAL CLIENTS	**222**	**29**	**251**	**45.7**	**21%**	**18%**
Total Chargeable	**2,000**	**-203**	**1,797**	**579.7**	**29%**	**32%**

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Committee and Date	Item
Audit Committee	
16th September 2021	
10:00 am	Public

INTERNAL AUDIT: QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

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

1 Synopsis

1.1 This report confirms, following a self-assessment quality assurance review (QAIP) , that Internal Audit complies with the Public Sector Internal Audit Standards (PSIAS) and where there is some limited partial conformance, this is normal in local government environments and not significant enough for escalation in the Annual Governance Statement. An external assessment is planned for the current year, in compliance with the PSIAS, details of which have been confirmed with the Chairman and Section 151 Officer.

2 Executive Summary

2.1 Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspect of the internal audit activity.

2.2 This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This quality assurance and improvement programme includes both internal and external assessments. This report provides members with an update on the External Assessment review planned in November.

3 Recommendations

The Committee is asked to consider and endorse, with appropriate comment,

3.1 The approach agreed by the Section 151 Officer and Head of Audit in consultation with the Chairman of the Audit Committee for delivery of the external assessment.

REPORT

4 Risk Assessment and Opportunities Appraisal

4.1 It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to both its main customer, Shropshire Council, and other clients.

4.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental or equalities consequences of this proposal.

5 Financial Implications

5.1 The review will be met from within an approved corporate budget, plus officer time spent in preparation and support of the process.

6 Climate Change Appraisal

6.1 Energy and Fuel Consumption; Renewable Energy Generation; Carbon offsetting or mitigation; Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect. The work will be conducted remotely which will benefit the environment.

7 Background

QAIP

7.1 This quality assurance and improvement programme (QAIP) demonstrates that Internal Audit:

- Has an adequate Internal Audit charter, goals, objectives, policies and procedures;
- Contributes to the organisation's governance, risk management and control processes;
- Has complete coverage of the audit universe;
- Complies with applicable laws, regulations and other standards that the Internal Audit activity may be subject to;
- Has identified the risks affecting the operation of the Internal Audit activity itself;
- Has an effective continuous improvement activity in place and adopts best practice; and
- Adds value to improve the organisations operations and contributes to the attainment of the organisation's objectives.

7.2 The Head of Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy. The QAIP includes both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments will be undertaken at least once every five years, in order to meet statutory requirements. The QAIP is reviewed on an annual basis.

Internal Assessment

7.3 The internal assessment involves ongoing monitoring of the performance of internal audit activity against the PSIAS, which have been incorporated into the routine policies and practices used to manage the service. These arrangements are as follows:

- Engagement planning and supervision.
- Standard working practices (including quality audit manual, working paper procedures, sign off, report review, checklists to ensure the audit process is followed).
- Ongoing supervision and review of audit work.
- Performance management information.
- Feedback from auditees following specific audit work/ reports.
- Results of quality assurance reviews, internal and external.
- A self-assessment against the requirements of the PSIAS.
- Any feedback from External Audit on the effectiveness of the function.
- Completion of the actions within the Quality Assurance Improvement Programme Action Plan.

7.4 The following processes also help to inform and assess the performance of Internal Audit throughout the year:

- Monthly meetings of the Head of Audit with the Section 151 Officer.
- Weekly Resources Management Team meetings which provide updates direct from Executive Directors and Members meetings through the Section 151 Officer. The interim Monitoring Officer attends these meetings.
- Monthly meetings with the Risk and Insurance Manager.
- Audit plan performance is reported on and any changes are signed off by the Section 151 Officer and reported to the Audit Committee.
- At least annually the Head of Audit meets with the CEO, Executive Directors and Senior Managers to consider and discuss the key risks facing the Council and impact on the internal control environment. The annual plan is drafted as a result of these meetings. More frequent meetings are held in areas of high risk.
- The Audit Charter is revisited annually and signed off by Audit Committee as is the Audit Plan.
- The self-assessment against the PSIAS is shared with the Section 151 Officer and Audit Committee annually.
- Virtual meetings are held with the External Auditor and the Chair of Audit Committee between formal meetings.

7.5 A full review against the PSIAS is conducted by the Head of Audit annually. The review is shared and commented upon by Senior Auditors and discussed at team meetings, along with the associated action plan for improvement. The Head of Audit then presents the assessment to the Council’s Section 151 Officer who understands the PSIAS requirements and provides a challenge to the assessment. Following this, the results of the self-assessment are reported to the Summer[1] Audit Committee along with details of any areas of non-conformance with the PSIAS. External clients are sign posted to the Audit Committee report on the Shropshire Council website for their assurances. All clients can provide challenge on the process at any time.

7.6 This self-assessment review is provided in conjunction with the Annual Internal Audit report, also found on Shropshire Council's Audit Committee Summer agenda. When read together, the two reports demonstrate the effectiveness of the Internal Audit service and compliance with the PSIAS.

7.7 The internal assessment concludes that there are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. Improvements are set out in an action plan which the Head of Audit is responsible for implementing.

External QAIP

7.8 The last external assessment report was conducted by CIPFA[2] and reported to the February 2017 Audit Committee, it is now time for a repeat review.

7.9 An external assessment of the team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. The Head of Audit has discussed this assessment with the Audit Committee and the Section 151 Officer and agreed that the self-assessment conducted annually will be validated by external assessors. The alternative option is for a full external assessment.

7.10 Following compliance with Contract Rules quotations were requested from two Internal Audit specialist bodies and the contract to conduct the fieldwork for assessment in November 2021, has been awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. They are well placed to conduct such a review. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS, who will be conducting the review, has no conflict of interest with Shropshire Council. CIPFA ensures that all consultancy, including PSIAS External Quality Assurance reviews, is delivered completely independently of any other organisation being the professional accountancy body for public sector finance.

8 Conclusions

[1] July in 2021 and 2020, previously June
[2] Chartered Institute of Public Finance Accountancy

8.1 Following an updated external assessment, the results will be reported publicly to Shropshire Council's Audit Committee and shared with external clients.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) ➢ Accounts and Audit Regulations 2015 ➢ Public Sector Internal Audit Standards 2017 ➢ Local government application notes for the UK Public Sector Internal Audit Standards CIPFA 2019 ➢ Completed Conformance Checklist 2021/22 and supporting evidence ➢ Annual review of Internal Audit Quality Assurance Improvement Programme QAIP 2021/22 30th July 2021, Audit Committee
Cabinet Member (Portfolio Holder) Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee
Local Member N/A
Appendices None

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Committee and Date	Item
Audit Committee	
16th September 2021	Public

STATEMENT OF ACCOUNTS 2020/21

Responsible Officer James Walton

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

1. Synopsis

1.1 This covering report and attached revised draft Annual Statement of Accounts, present to Audit Committee members the unaudited outturn position for the financial year 2020/21 and details any amendments made to the Draft Statement of Accounts during the audit process to date.

2 Executive Summary

2.1 The draft Statement of Account was presented to Audit Committee on 30th July 2021; certified by the Section 151 Officer as a true and fair view of the financial position and published on the Council's website on 31st July 2021, in compliance with statutory guidelines.

2.2 The external audit by Grant Thornton began 2nd August 2021 and plan to substantively complete the audit testing by 30th September and issue an audit opinion in October 2021 which is after the 30th September 2021 statutory deadline. The reason for this delay is the result of a combination of factors including;

- The final accounts audit started a week later than planned. This was the result of the Council needing to make late changes regarding the valuation of assets within the pension fund accounts as new information became available with a consequential need to obtain an updated actuarial report in respect of the net pensions liability. This in turn delayed the production of working papers and as agreed with the Council's finance team, it was agreed to delay the start of the audit.
- Grant income has increased significantly in 2020/21, largely as a result of Covid specific grants. As flagged within our audit plan understanding the Council's judgments on principal and agent and reviewing the Council's accounting judgments on individual grants has resulted in further audit procedures in this area.
- There has been unexpected illness with a key member of the audit team. Additional resource has been allocated to the audit to make up the shortfall but due to resourcing constraints this has had to be at a later date than originally planned impacting upon delivery.

2.3 The audit on the Statement of Accounts is expected to be complete in October 2021 and Grant Thornton will then produce an Audit Findings Report detailing their opinion on the accounts. Therefore, it should be noted that the attached Statement of Account is a draft, and the audit opinion will only be issued once the audit work is complete. Any further amendments required to the Statement of Accounts and the Audit Findings Report will be presented to Audit Committee on 9th December and Full Council on 16th December 2021.

2.4 To sign off the accounts in October, we would require either another Audit Committee or delegate to the Executive Director of Resources (section 151 officer). We would recommend an additional meeting but if impractical Audit Committee can delegate to the Executive Director of Resources (section 151 officer).

2.5 The draft Statement of Account has been subject to additional review by Grant Thornton's technical team and item 13 on the agenda details the External Audit progress report.

3. Recommendations

It is recommended that Members:

A. Receive and comment on the revised draft Statement of Accounts attached as Appendix 1.

B. Agree to set up an emergency meeting on 22nd October or Agree that the Executive Director of Resources (Section 151 Officer) be authorised to make any adjustments to the Statement of Accounts prior to publication on the Council's website.

REPORT

4. Risk Assessment and Opportunities Appraisal

4.1 Details of the potential risks affecting the balances and financial health of the authority are considered within the revised draft Statement of Accounts.

5. Financial Implications

5.1 This report considers the overall financial position of the Authority in the form of the Council's Statement of Accounts. The accounts consider the level of assets controlled and owned by the Authority, and the level of balances held.

6. Climate Change Appraisal

6.1 The revised draft Statement of Accounts' report and recommendations have no direct effect on climate change.

7. Background

7.1 The Accounts and Audit Regulations 2015 state that members are required to approve the annual accounts after, rather than before, the findings of the audit are known. The formal date for approval and publication of the accounts for financial year 2020/21 is 30th September 2021 has amended by the Accounts and Audit Regulations due to the impact of the COVID-19 pandemic. The Council had consulted with the external auditors on this timescale and plan to substantively complete the audit testing by 30th September and issue an audit opinion in October 2021.

7.2 On 30th July 2021 this Committee considered a report from the Council's S151 Officer setting out the details of the draft and unaudited Statement of Accounts for financial year 2020/21. It was agreed that the Committee would: Receive and comment on the covering report; the draft Statement of Accounts; and the Analytical Review of the draft Statement of Accounts. A copy of the 2020/21 revised draft Statement of Accounts is attached at Appendix 1.

7.3 The draft Statement of Accounts were then sent to Grant Thornton, the Council's external auditors, who started their audit of the accounts on 2nd August 2021 and the audit continues to date. The audit of the accounts is expected to be substantially complete in September 2021 and is aims to issue their opinion in October 2021.

7.2 The Accounts and Audit Regulations 2015 also require that the Statement of Accounts is accompanied by the Council's Annual Governance Statement which details the processes and procedures in place to enable the council to carry out its functions effectively. This will be reported to Full Council on 16th December 2021.

8. Changes from the Draft Statement of Accounts Certified by the Director of Resources (Section 151 Officer) on 31st July 2021

8.1 There have been no material changes identified to date during the audit however, there have been a number of other amendments made to the disclosures. The changes are summarised in Table 1 below with further details of the amendments provided in Section 8.3.

Table 1 - Amendments to Statement of Accounts

Amendment Reference	Amendment Made
A	Amendment to Critical Judgements in Applying Accounting Policies on the treatment of covid-19 grants
B	Amendment to Critical Judgements in Applying Accounting Policies on the treatment the LEP
C	Amendment to Long Term Unquoted Equity Investment
D	Correct typo in Financial Instruments Note
E	Amendment to Group Accounts Introduction
F	Amendment to Group Comprehensive Income and Expenditure Statement
G	Amendment to Note G1.4 of Group Accounts

8.2 Audit amendments made within the Pension Fund Accounts have now been reflected within the Pension Fund section of the Statement of Accounts. These were changes to disclosures and presentational adjustments with no amendments required to the prime financial statements.

8.3 The below amendments have been made to the Statement of Accounts.

Amendment A – Amendment to Critical Judgements in Applying Accounting Policies on the treatment of covid-19 grants

The note has been updated to include further details on the treatment of covid-19 grants where the Council is deemed to be acting as an agent.

Amendment B - Amendment to Critical Judgements in Applying Accounting Policies on the treatment the LEP

The note has been updated to clarify the treatment of transactions relating to the Marches LEP in the Council's accounts.

Amendment C – Amendment to Long Term Unquoted Equity Investment

Update to the narrative included within the Long-Term Unquoted Equity Investment note.

Amendment D – Correct typo in Financial Instruments Note

A typo has been corrected within the Financial Instruments Note to amend Creditors that are not financial instruments from (12,7989) to (12,789).

Amendment E – Amendment to Group Accounts Introduction

Introduction updated to include further details in relation to the Jersey Property Unit Trust.

Amendment F - Correction to Group Comprehensive Income and Expenditure Statement

The 2018/19 figures had been included in the 2019/20 prior year comparators in error, therefore the 2019/20 figures have been updated.

Amendment G - Note G1.4 of Group Accounts

Additional information included to clarify the treatment of property, plant and equipment.

9. Conclusions

9.1 The audit of the 2020/21 Statement of Accounts is nearing completion and officers have worked effectively with the Council's external auditors to provide information to support the calculations and assumptions that underpin the draft statements.

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

Draft Annual Statement of Accounts 2020/21 - Audit Committee 30th July 2021

CIPFA's Code of Practice (Code) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Cabinet Member (Portfolio Holder)
Councillor Gwilym Butler

Local Member

Appendices

Appendix 1: Revised Draft Statement of Accounts for financial year 2020/21

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Draft Statement of Accounts
2020-2021

Shropshire Council

Annual Statement of Accounts 2020/21

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2015, and other statutory provisions.

The statement includes:

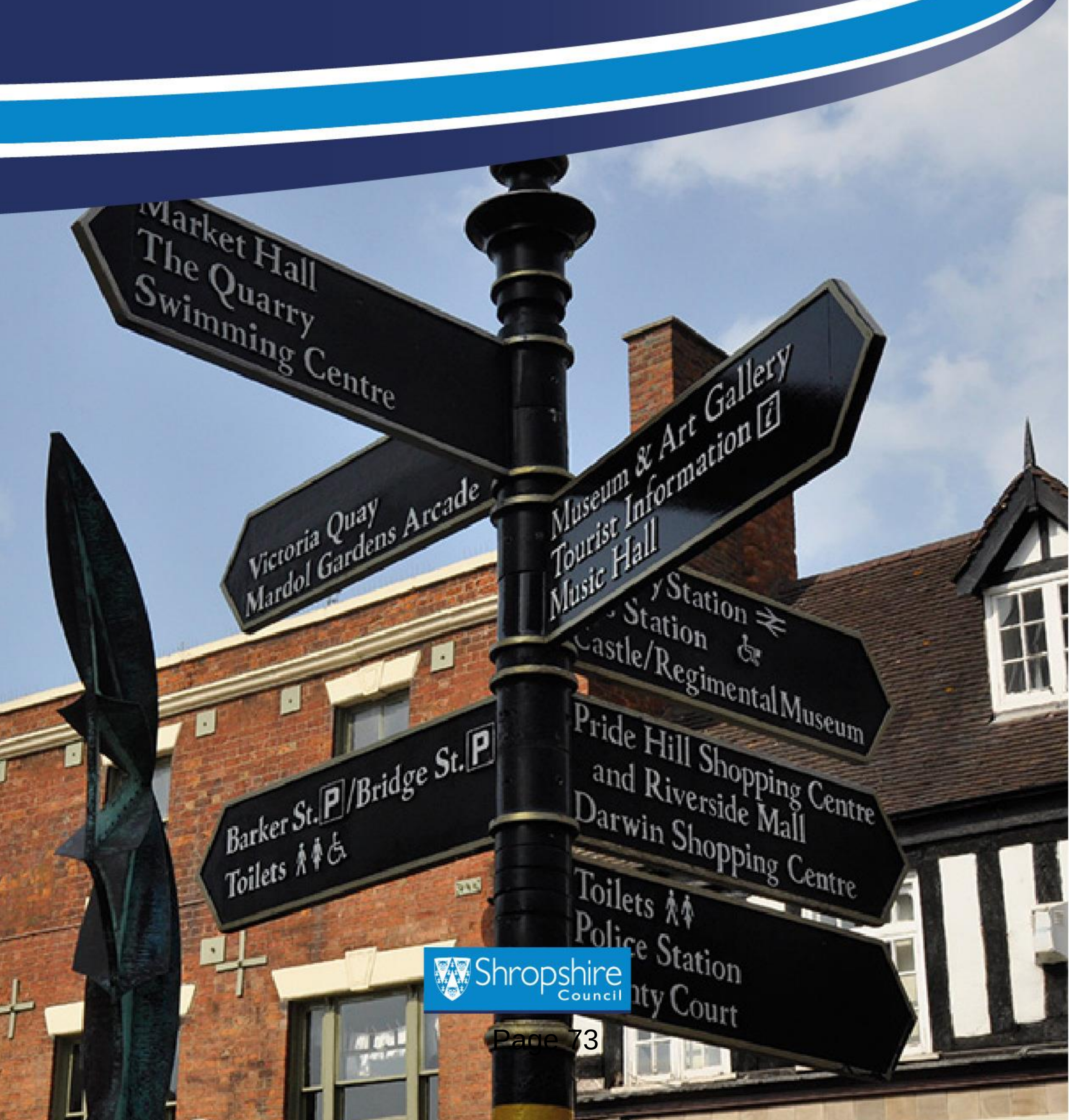
Further information about the Council's Accounts can be obtained from the Finance Department.

For details please contact James Walton on (01743) 258915.

James Walton
Executive Director of Resources

Section 1

Narrative Report



Shropshire Council

The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

The section on accounting policies describes the basis on which the financial information within the statements is prepared. The accounts have been prepared to give a true and fair view of the financial position of the Council and with the underlying assumption of the going concern concept. Information is included within the statements having regard to the concepts of relevance, reliability, comparability and understandability together with a consideration of materiality.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **A Narrative Report** – this provides an effective guide to the most significant matters reported in the accounts, including an explanation of the Council's financial position and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Chief Financial Officer concerning the Council's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the external auditor following the completion of the annual audit.

- **The Core Financial Statements,** comprising:

    - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

    - **The Movement in Reserves Statement –** this shows the movement in the year on the different reserves held by the Council which is analysed into 'usable reserves' and other reserves.

- **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council's financial position as at 31 March 2021. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.

- **The Cash Flow Statement** – this consolidated statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.

- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements and include the Council's accounting policies.

- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the Council is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.

- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.

- **The Collection Fund –** This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

- **The Pension Fund Accounts and Disclosure Notes** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council's own finances. The accounts summarise the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2020/21 and assets and liabilities as at 31 March 2021.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

Financial Report

Revenue Outturn for 2020/21

The revenue budget for 2020/21 was agreed by Council in February 2020. During the course of the year, budgets can move between service areas in line with the Council's approval process, however the Net Budget remains the same, to reflect the funding that the Council receives. Revenue budgets are monitored and reported regularly to Cabinet in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising.

Narrative Report

The final outturn position for each Service Area is shown in the table below which compares actual net expenditure with the approved budget. Further details of the outturn position for each directorate is shown in the Revenue Outturn report which is presented to Cabinet and Council in June and July respectively.

	Final Budget £000	Actual Outturn £000	Controllable Over/ (Under) £000
Service Expenditure			
Adult Services	118,610	116,739	(1,871)
Children's Services	53,030	55,726	2,696
Finance, Governance & Assurance	2,629	2,304	(325)
Legal & Democratic Services	457	615	158
Place	59,904	62,208	2,304
Strategic Management Board	4	373	369
Workforce & Transformation	(231)	224	455
Corporate	(8,881)	(13,322)	(4,441)
Net Budget	**225,522**	**224,867**	**(655)**
Funded By:			
Revenue Support Grant	(6,219)	(6,219)	
Top Up grant	(10,031)	(10,031)	
Business Rates	(41,689)	(41,689)	
Collection Fund Surplus	(3,649)	(3,649)	
Council Tax	(163,934)	(163,934)	
Total Funding	**(225,522)**	**(225,522)**	

Budget monitoring reports during the course of the year have shown the following position:

Year End Projected Over/(Under)spend	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Outturn £000
Adult Services	(1,538)	(1,736)	(1,338)	(1,871)
Children's Services	8,538	6,652	7,276	2,696
Finance, Governance & Assurance	448	1,625	718	(325)
Legal & Democratic Services	26	60	46	158
Place	8,594	5,121	3,279	2,304
Strategic Management Board	(115)	(123)	349	369
Workforce & Transformation	2,852	1,076	1,060	455
Corporate	(16,880)	(9,904)	(10,552)	(4,441)
TOTAL	**1,925**	**2,771**	**838**	**(655)**

The Council was a projecting a significant overspend at quarter 1 and then again at quarter 2 this was reduced at quarter 3 and by quarter 4 an underspend was delivered.

Throughout the year the Council experienced significant increases in the cost of Looked After Children as more and more children required support. This not only impacted on the financial position of Childrens Services but also Legal services where caseloads correspondingly increased. Additionally, increases in the costs of homelessness resulted in a shortfall in Housing Subsidy creating pressure on Council budgets during the year.

In the latter half of the year the availability of Covid-19 funding from government, coupled with greater certainty over its application, meant that some of these pressures could be offset and the overall pressures on Council budgets reduced. By the end of 2020/21 the identifiable costs of the Covid-19 pandemic had been fully covered by the various sources of Government funding provided.

The financial impact of Covid-19 in 2020/21, including grants administered by schools and grants passported to third parties, totalled £174.780m.

Covid-19 Funding 2020/21	£000
Unringfenced MHCLG grant to support direct Local Authority expenditure and loss of income	22,023
Income from Coronavirus Job Retention Scheme (for furlough costs) plus	3,635
Funding for eligible Sales Fees & Charges losses	1,188
Other specific funding streams deployed against specific activity or passported directly to third parties (including schools funds)	147,934
TOTAL	**174,780**

A total of £26.8m of direct adverse cost impact occurred within Council budgets and was funded as shown below.

Covid-19 Cost impact on Council Budgets 2020/21	£000	£000
Adult Social Care	3,720	
Children's Social Care	2,910	
Homelessness	1,415	
Furlough and other staff costs	1,368	
Leisure Services	848	
PPE	558	
Communications and ICT Services	427	
Lockdown Compliance and Reopening Costs (including Reopening of High Streets)	325	
Delivery of Food Parcels and Essential Supplies, and Grants to Community Groups	276	
Public Health	222	
Legal Services (Child Care)	84	
Transport	80	
Learning and Skills	60	
Waste Management	60	
Finance	30	
Contribution to WMCA Covid-19 Hub	20	
Outdoor Partnerships (Rights of Way)	17	

Arts Grants	13	
Risk Management and Insurance	1	
Additional Expenditure Incurred (including staff time and furlough)		12,434
Loss of Income		10,419
Unachieved savings		3,993
Total Cost impact of Covid-19 2020/21		**26,846**
Funded by		
Unringfenced MHCLG Grant		22,023
Compensation for Loss of Sales, Fees & Charges Income		3,635
Coronavirus Job Retention Scheme		1,188
Total Funding applied 2020/21		**26,846**

A total of £147.934m in other specific funding streams was deployed against specific activity or passported directly to third parties.

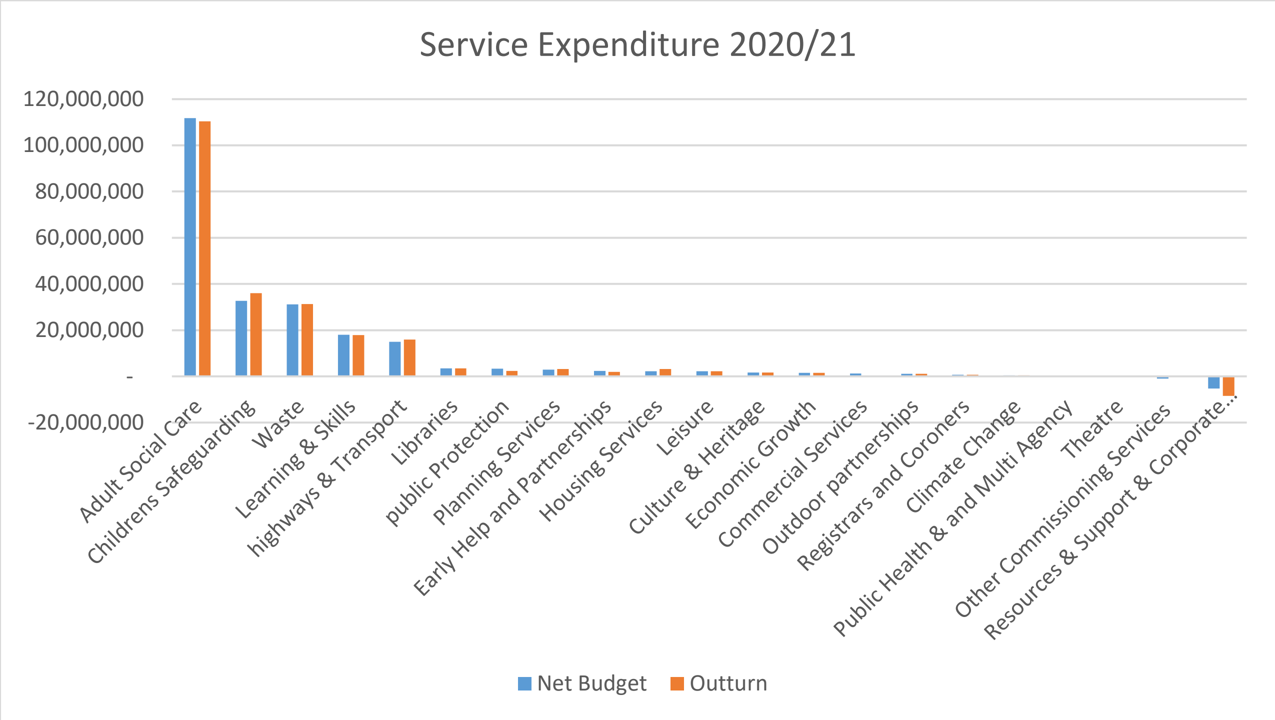
Other Covid-19 Funding Applied or Passported during 2020/21	**£000**	
Small Business Support Grant/Retail Hospitality & Leisure Grant/Local Authority Discretionary Grant	85,983	
Local Restrictions Support Grants / Closed Business Grants / Additional Restrictions Grant / Christmas Support Payment	44,937	
Infection Control Fund	8,590	
Covid-19 Hardship Fund	1,540	
Rapid Testing Fund	1,120	
Covid-19 Winter Grant Scheme	783	
Test and Trace Support Grant	766	
Workforce Capacity Fund	697	
Contain Outbreak Management Fund	611	
Community Testing Grant	360	
Sport England National Leisure Recovery Fund	349	
Reopening High Streets Safely Fund	288	
Home to School Transport Grant	241	
Supported Bus Services	229	
Self Isolation Grant (Test and Trace Support Payments)	188	
Emergency Assistance Grant	157	
Compliance and Enforcement Grant	145	
Coronavirus Job Retention Scheme (School budgets)	94	
Travel Demand Management Grant	75	
Active Travel Grant	32	
Eat Out to Help Out	4	
Total Funds administered by the Council		**147,189**
Covid-19 Catch Up Premium	504	
Coronavirus (Covid-19) Schools Fund	241	
Total Funds administered by Schools		**745**
Total		**147,934**

The overall controllable underspend at the end of 2020/21 of £0.655m against service area's budgets represents 0.11% of the gross budget of £575.462m.

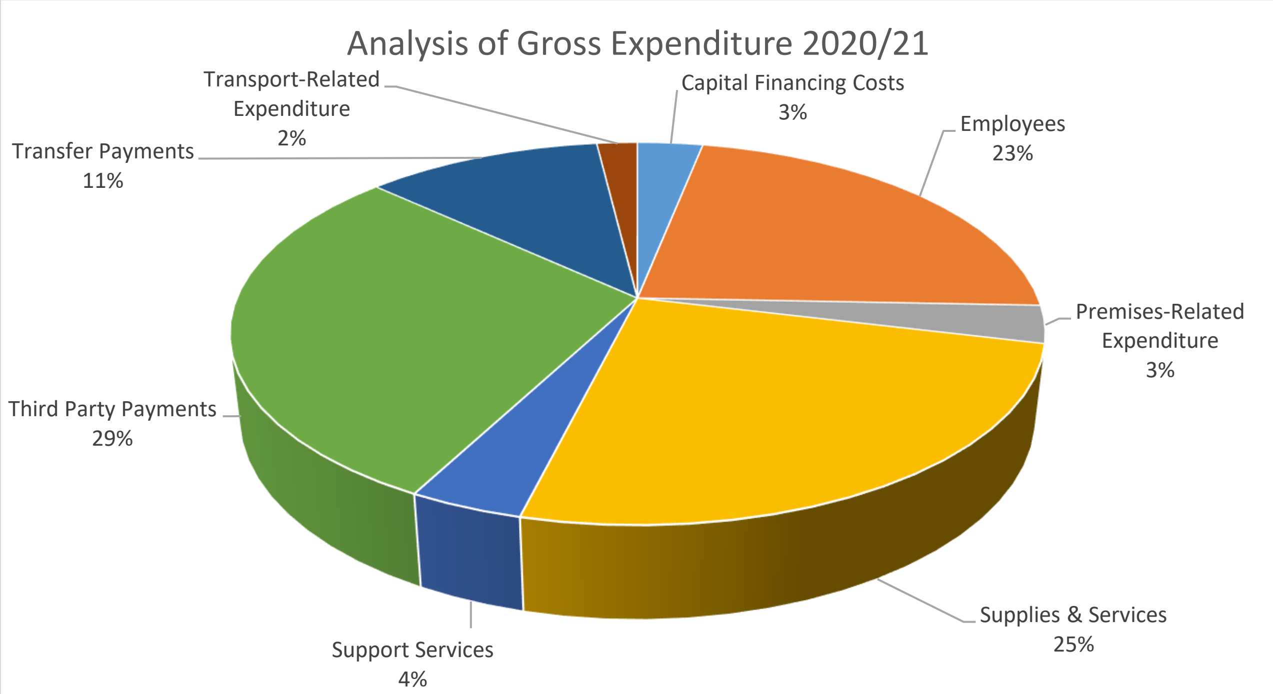
In addition, School balances held under a scheme of delegation, including invested sums, have increased by £4.104m from the previous year. (This includes the impact of removing the Dedicated Schools Grant deficit which has now been moved to an unusable reserve.) Schools' balances have to be ring-fenced for use by schools, and schools have the right to spend those balances at their discretion. One school converted to an academy during the year.

Further detail on the Council's service expenditure can be found within the Comprehensive Income & Expenditure Statement and Notes 6 and 7 to the Accounts.

The chart below demonstrates which services the Council has spent its net budget on. It should be noted that this excludes any expenditure on schools which is funded separately through the Dedicated Schools Grant.



The gross expenditure for the Council, including expenditure for schools was £872.355m and this was spent on the following types of expenditure:



Capital Outturn for 2020/21

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2020/21 as at outturn and slippage into the next financial year. Further details of the outturn position are provided in the Capital Outturn report presented to Cabinet and Full Council.

Service Area	Revised Budget 2020/21 £000	Actual Spend 2020/21 £000	Variance 2020/21 £000
General Fund			
Place	52,012	53,864	1,852
Adult Services	2,601	2,447	(154)
Children's Services	7,176	4,430	(2,746)
Workforce & Transformation	645	451	(194)
Total General Fund	**62,434**	**61,192**	**(1,242)**
Housing Revenue Account	6,133	4,547	(1,586)
Total Capital Programme	**68,567**	**65,739**	**(2,828)**

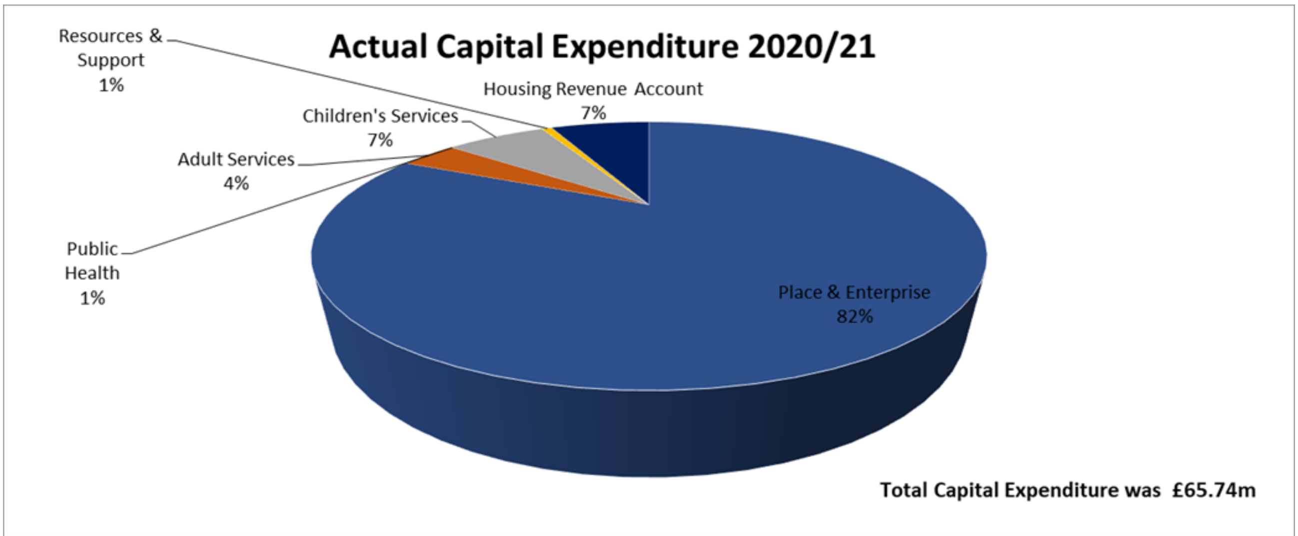
The table below provides a summary of the capital financing for the actual capital expenditure for 2020/21.

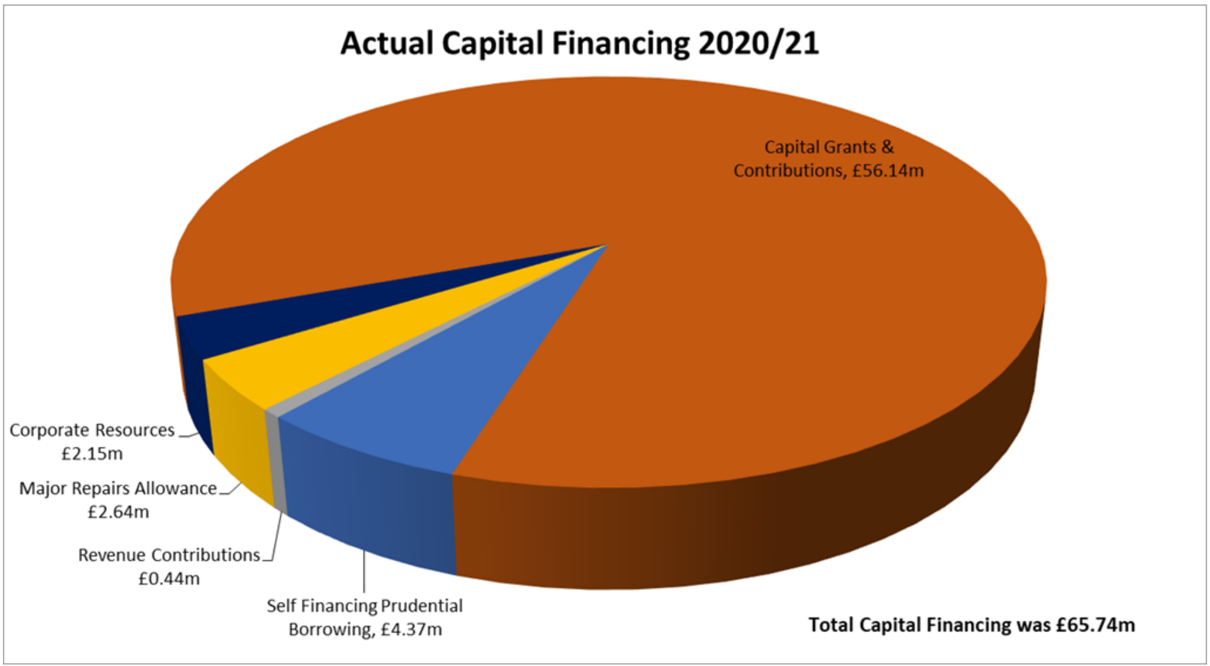
Financing	2020/21 £000
Capital Grants & Contributions	56,142

Revenue Contributions	443
Major Repairs Allowance	2,638
Self Financing Prudential Borrowing	4,369
Corporate Resources (Prudential Borrowing/Capital Receipts)	2,147
	65,739

The areas of most significant expenditure for schemes undertaken in 2020/21 are as follows:

	Expenditure 2020/21 £000
Place	
Highways and Transport	27,902
North West Relief Road	3,343
Broadband	1,412
Economic Development	10,138
Corporate Landlord	5,584
Adult Services	
Disabled Facilities Grants	1,401
Supported Living	993
Resources & Support	
Digital Transformation Project	451
Children's Services	
Schools Condition Schemes	1,380
Devolved Formula Capital	494
School Future Place Planning	1,916
Housing Revenue Account	
Housing Major Repairs Programme	3,018
House Repurchases	1,323
New Build Programme - Phase 4-6	206





Reserves

The general fund balance has increased by £0.580m in 2020/21 to a total of £14.091m. This is due to the underspend within the revenue account during 2020/21 . This balance lies below the risk assessed level of balances calculated for 2020/21.

Earmarked reserves have increased by £26.123m during 2020/21, which includes an increase in schools delegated balances of £4.104m. Total earmarked reserves are held at £93.658m including school balances of £5.995m.

The most significant earmarked reserve held is the COVID Government Funding Reserve at £23.093m. This holds funds related to Covid-19 and in particular the S.31 Business Rates Additional Reliefs funding of £22.074m. Another significant reserve is the Financial Strategy Reserve at £20.599m. This is held in accordance with the financial strategy where the Council will be using one off funding to close the funding gap. It is intended that this balance will be used to fund the funding gap arising in the 2021/22 and to fund some of the gap arising in 2022/23 after which this fund will be exhausted.

Assets

For 2020/21 all General Fund Valuations were undertaken by External Valuations, where previously the majority had been undertaken by the internal Estates Department. The external Valuers adopted a different valuation approach to that the Council's Valuers took previously, adopting differing assumptions in the valuation approach. This resulted in significant swings in valuations when compared to previous valuations. As this is just a change in accounting estimates, no prior period adjustment is required and to ensure all assets are valued on a consistent basis, additional asset valuations were commissioned.

During 2020/21, facilities at one school was written out of the Council balance sheet because of the school transferring to Academy School status and the transfer of the buildings and hardstanding areas to the Diocese was completed, prior to the school transferring to Academy School status. In accordance with the Council's accounting policies, these are now valued at nil value in the Council's balance sheet and as a result of the transfers assets of £3.85m were written out of the balance sheet, accounted for as a loss on disposal.

Borrowing

The Council undertakes long-term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the slippage within the capital programme, there has been no additional borrowing required for current schemes.

Cashflow

Cashflow forecasts are prepared for the current and future financial years and are monitored on a daily basis. The cashflow forecast is regularly updated to take account of future changes so the cash position of the Council can be managed appropriately. We are satisfied that cashflow levels are sustainable in the short to medium term based on the information we currently have. This is the case despite the increase in costs and reduction in income levels taken over the period of the pandemic.

Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2020, the Council's net pensions liability amounted to £495.7m. In comparison, the deficit amounts to £531.9m at 31 March 2021 due to minor changes in financial assumptions impacting on the asset and liability figures. Statutory requirements for funding the deficit means the financial position of the Council remains healthy, as the deficit will be met by increased contributions over the remaining working life of employees.

2020/21 represented the last year of the 3 year actuarial valuation of the pension fund and a new actuarial valuation has been undertaken for the period 2020 – 2024. The Council has again decided to make an early payment of the Local Government Pension Scheme deficit lump sum for a period of 3 years in 2021/22 in order to deliver a revenue saving as a result of lower interest costs from repaying the deficit.

Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 34, and the change to the pension liability in 2020/21 is analysed in note 42 to the accounts.

Shropshire County Pension Fund continued to work with eight other Funds in the Midlands region during the year. LGPS Central Ltd has been established to manage investment assets on behalf of its eight Local Government Pension Scheme (LGPS) funds across the Midlands region. It is a multi-asset manager, investing up to potentially £48.9 billion of assets (£23.0 billion as at March 2021), on behalf of 900,000 LGPS members and 2,500 employers. LGPS Central Ltd is jointly owned on an equal share basis by eight Pension Funds and is a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The key objectives of LGPS Central will be to deliver cost savings and improve risk adjusted investment returns after cost, enable access to a wider range of asset classes for the participating pension funds, and to ensure good governance. LGPS Central will manage a wide range of asset classes, employing a mix of internal and external investment management. The company is a private company limited by shares and was incorporated on 13 October 2016.

Performance in 2020/21

The Council adopted its new Corporate Plan in December 2018 for the period 2019/20 to 2021/22. The Plan sets out high-level outcomes and a range of medium-term outcomes and objectives for the coming 12 to 24 months. The medium-term outcomes and objectives are the basis for the Council's Strategic Action Plans which are thematic and cross cutting.

The Council's corporate performance management framework is structured around the high-level outcomes listed below and incorporates the measures and project delivery milestones from the strategic action plans.

- **A Healthy Environment**
- **A Good Place to do Business**
- **Sustainable Place and Communities**
- **More People with a Suitable Home**
- **Embrace our Rurality**
- **Care for those in Need at any Age**
- **Your Council**

The delivery of the outcomes for Shropshire is monitored on a quarterly basis. It is presented using a performance portal, which enables a drill down into the measure. The information is reported to Cabinet with the report identifying specific measures by exception. The full information for each measure is published on the performance portal when the report is presented to Cabinet and this provides Overview and Scrutiny the opportunity to identify any measures which stand out that they would like to understand in greater detail. They can request additional information and receive it to inform whether they would want to add it to their work programme.

It should be noted that this year's performance has been affected by the impact of the COVID-19 pandemic, which has impacted on "business as usual" provision, and saw a redirection of resources to emergency response and provision of essential services only, for a significant proportion of the year.

A Healthy Environment

Cultural and leisure activities provided by Shropshire Council were severely impacted by the COVID 19 pandemic. With restrictions and closures of facilities the visitor numbers are significantly lower than in preceding years. On a positive note more people have visited outdoor recreation sites where restrictions were less limited. Take-up of e-resources from the library service has seen an increased take-up.

Shropshire Council is committed to achieve carbon neutral status by 2030. Shropshire Council's estate of solar panel arrays generated 818,177 kwh of electricity during the year. This produced a carbon saving of 189 tonnes of CO_2 emissions. Shropshire Council's Community Tree Scheme saw 10,000 trees on offer to residents of Shropshire snapped up in just 24 hours.

A positive impact of lockdown periods due to the pandemic has been the reduction in the number of road accidents. Subsequently the rate of people killed or seriously injured has also reduced. The long-term impact of COVID 19 on commuting patterns may affect future accident profiles.

Residential waste collections were maintained throughout the year. The tonnage of waste collected from the kerbside increased with the biggest factor being the increase in people at home, (working or furloughed). Household Recycling Centres were closed during the first lockdown but have since reopened. Recycling, reuse and composting rates have held up well during the year and remain above target.

A Good Place to do Business

Historically, employment rates in Shropshire have been higher than national or regional averages. This is still the case, but levels of employment have fallen in 2020 as a result of the Covid-19 pandemic and unemployment has risen. The number claiming Universal Credit has more than doubled since the onset of the pandemic and remains at an unprecedentedly high level. The claimant count (the main measure of people claiming benefits because they are unemployed) also doubled between March 2020 and June 2020, although rates have since started to decline. More than 50,000 Shropshire residents have been furloughed at some point since the scheme began, and while numbers have fallen significantly since the third national lockdown ended, there were still 9,800 on the scheme as of 31st May 2021. Levels of self-employment have also fallen, despite 45,300 Government Self-employment Income Support Scheme (SEISS) grants being awarded since Spring 2020.

Businesses in Shropshire continue to be impacted by Covid-19 – many have had to close for extended periods of time or change how they trade, and others continue to run at reduced capacity. A series of grants and other finance options have been made available by the Government, with grants schemes being administered by the Council according to their eligibility criteria. The Council has also implemented social distancing measures in many of

Shropshire's key towns to support businesses and to protect the public, which has involved the work of Highways and Regulatory Services, amongst others. The long-term impact on the business economy remains to be seen but the Council is doing all it can to support businesses back to recovery. A 15-year programme to invest £50 million in new and existing business parks has been approved by Council, and work is underway to refresh the Economic Growth Strategy, which will underpin economic recovery initiatives.

The second phase of the Tern Valley business park in Market Drayton welcomed new businesses to the site during the year. Phase two of the park comprises a mixture of small office and workshop space for start-up and expanding businesses, with units ranging from 1,000 to 6,000 square feet. Developed in partnership by Shropshire Council and construction partner Redstart. All 24 units from the second phase purchased within a few weeks of launch.

Sustainable Places and Communities

Volunteering provides social benefits to both volunteers and the communities they support. Shropshire has a strong volunteer sector, which provided invaluable support to vulnerable communities throughout the pandemic. However, due to lockdown restriction the number of volunteer hours supporting Council services such as archives, museums and outdoor recreation were reduced in comparison to previous years.

Adult Social Care teams worked tirelessly throughout the year in response to the demand on services. The service improved the rate of discharge from hospital to home and reduced the waiting times for those patients who required support from social care. The rate of permanent admissions of adults for age groups 18 – 64 and 65+ into residential or nursing homes are both lower than the profile. This may in part be due to the COVID 19 situation and remains to be seen what the impact will be on future demand for residential and nursing care facilities. The service also confirms that it assesses the needs of each person to ensure that the right service is provided at the right time ensuring that residential and nursing care is provided at the most appropriate time.

More People with a Suitable Home

The Council's housing development company, Cornovii Developments Limited, started construction on its Firth development at Crowmoor. Houses at the site are now available with Ellesmere and St Martins developments now in the planning stages. Cornovii was formed to address unmet housing needs within the county.

The new Housing Strategy for Shropshire 2020 – 2025 was adopted during the year. This strategy aims to address barriers that present residents from being able to access a suitable home. With the aspiration of Right Home Right Place the first applications for community led initiatives have submitted plans for affordable home developments at Prees, Whittington and Weston Rhyn.

Embrace our Rurality

The Covid-19 pandemic has highlighted the need for an effective and reliable digital infrastructure with hugely increased numbers of people working from home and using technology to keep in touch with colleagues, partners, clients and suppliers. 98.2% of Shropshire premises can now access superfast broadband. In addition, the Government's UK Gigabit Voucher Scheme can help rural communities to get access to a gigabit-capable broadband connection.

Plans to develop the next Local Transport Plan for Shropshire are progressing. This will include enhancing links to economic growth and the local plan review for each area but also incorporate Shropshire Council's aspirations to tackle carbon emissions and climate change.

Care for those in Need at any Age

Special Educational Needs and/or Disabilities (SEND) services provided in Shropshire by the Council and Clinical Commissioning Group were inspected in Jan 2020. They were required to develop a joint Written Statement of Action to address areas of weakness. This was submitted to Ofsted in September 2020. Joint working groups are now working through the project plans to deliver improved services, greater accountability across all partners and increased scrutiny of performance.

The Council's Children's Services has seen an increased demand for support across its services. The complexity of cases for Children's Social Care has increased as is evidenced by the number Children who are Looked After by the Council which continued to increase throughout the year. Pressures on the court system, due to the pandemic, has delayed some children leaving care.

During the pandemic, carers have faced added pressures. To help address this Shropshire Council has been working with and commissioning extra support for carers. Services include; a range of free online support for carers, including an email course, virtual cuppa's, 1 to 1 chat's, lockdown weekly planners, digital support and peer support.

Your Council

The number of staff employed by the Council has increased by 56 staff over the course of the year. The increase in headcount is due to continued recruitment drives to recruit Social Workers and also a recruitment drive to recruit START workers within out Adult Services area. In addition to the recruitment campaigns two leisure centres transferred into the authority from April 2020.

Approximately 1600 colleagues continue to work from home with staff also re-deployed to some areas to support the delivery of the vaccination programme and respond to the demands of the pandemic. As services have gradually returned to their substantive delivery the number of staff on furlough has been reducing over the period.

It should be noted that whilst the COVID-19 pandemic has had a significant impact on service provision, the ability to continue to deliver essential services in a different and more efficient way has provided the Council with the opportunity to consider how services will be delivered by the Council in the future.

Current and Future Prospects

The Council produced a Medium Term Financial Strategy for the period 2021/22 – 2025/26, and whilst the plan had managed to identify a balanced budget for 2021/22 through the use of one off grant balances and reserves, the future financial plan does not yet deliver a balanced and sustainable budget for the long-term future.

The COVID-19 pandemic will continue to impact the delivery of the 2021/22 budget. To date the Government has provided sufficient funding to help support local authorities to fund all costs and income losses arising as a result of Covid-19. It is expected that this support will continue and some funding allocations have been announced for 2021/22.

The impact of the COVID-19 pandemic has also meant that the introduction of 75% business rates retention alongside the fair funding review has been further delayed back to the 2023/24 financial year. The uncertainty over the detail of these proposals makes it extremely difficult for the Council to formulate any long term plans to deliver a sustainable budget and future for the Council.

Next year we will be investing over £150 million of capital funding into local projects. The capital programme remains priority led, reflecting the need for growth in the Shropshire economy, investment in infrastructure and roads, and significant funding to deliver superfast broadband across much of Shropshire in the coming years.

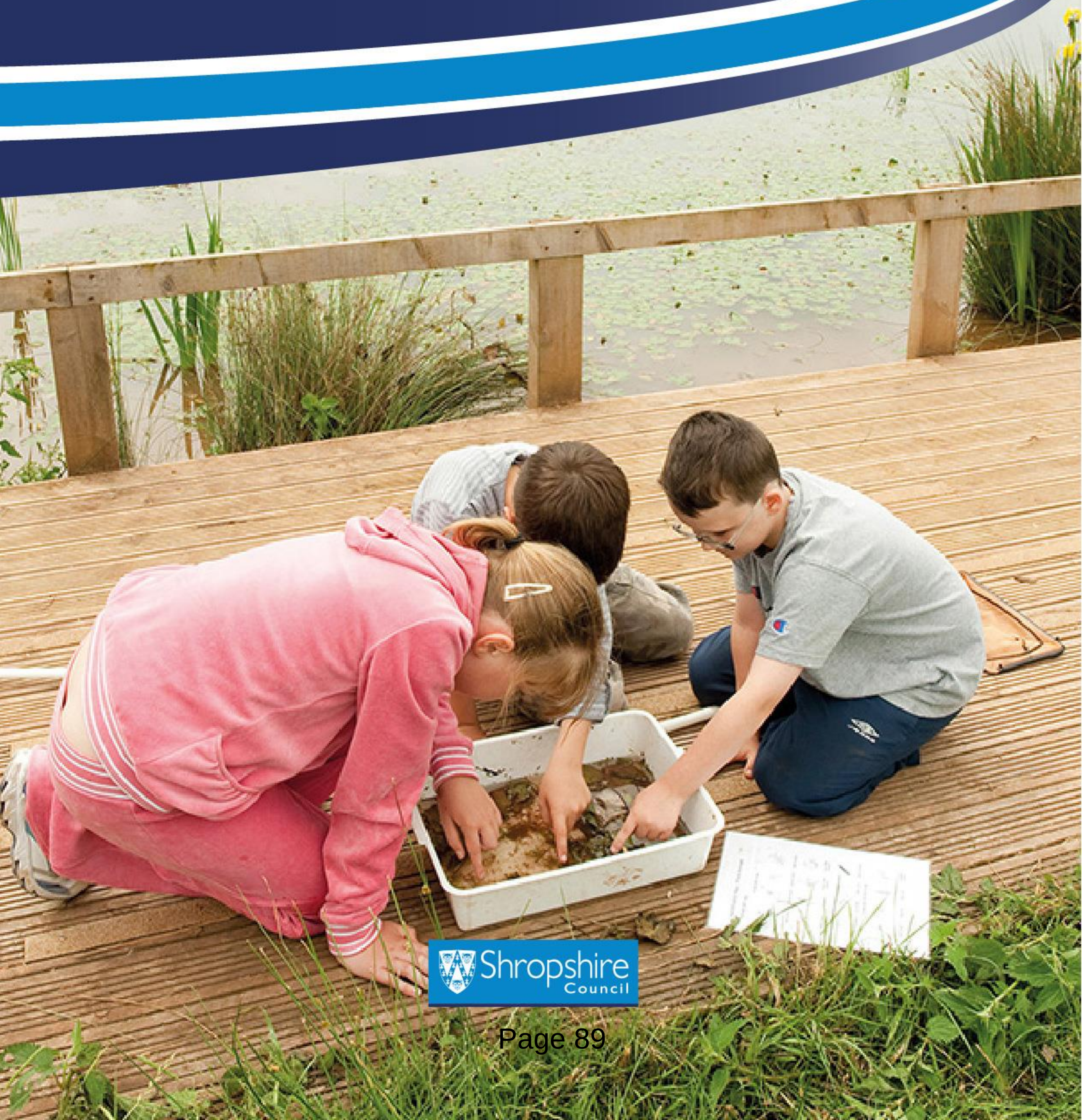
The bottom line is, of course, that we have a statutory duty to set a legal budget. This is becoming increasingly difficult as each year progresses. The emergency event of COVID-19 has demonstrated the need to hold sufficient balances in reserve to assist with balancing the books should these be required, however the delivery of continual savings on the budget is becoming more and more difficult. The authority needs to understand the longer term financial funding position from the Government as soon as possible so that it can make sustainable decisions that will deliver a long term financial plan for the authority.

Brexit

The UK formally left the EU on 31 January 2020 and entered a period of transition which ended on 31 December 2020. To date the Council has received £0.315m in Government funding in order to prepare for Brexit. So far the Council has spent £0.096m, £0.219m remains available for use in 2021/22.

Section 2

Statement of Responsibilities



Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance, Governance & Assurance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approved by Council

The Council's Statement of Accounts for 2020/21 was formally approved at a meeting of the Audit Committee on xx September 2021

Brian Williams
Chair of the Audit Committee
xx September 2021

Responsibilities of Executive Director of Resources

The Executive Director of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Executive Director of Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Executive Director of Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

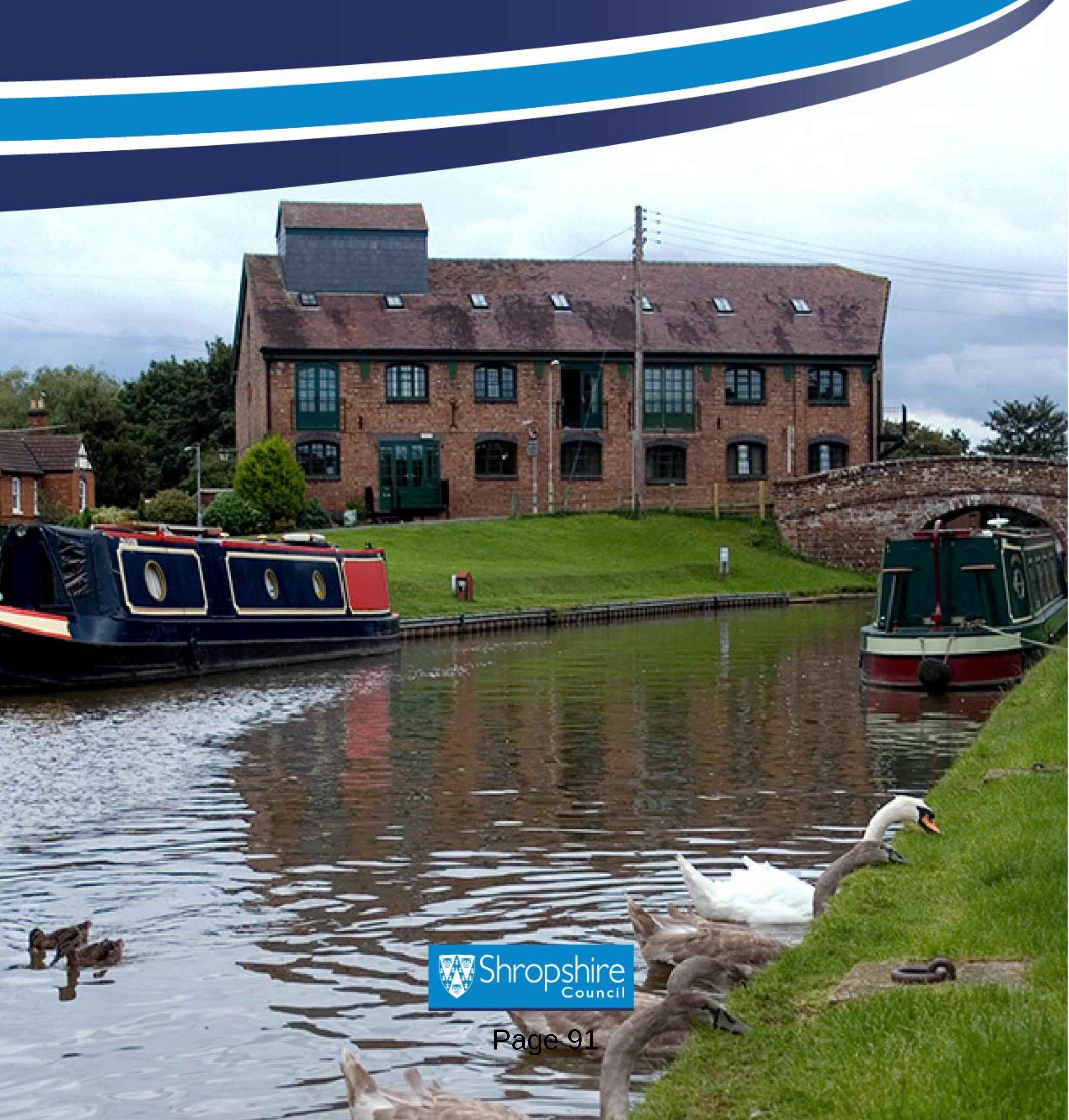
Certificate of the Executive Director of Resources

I hereby certify that the Statement of Accounts present a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2021.

James Walton
Executive Director of Resources
xx September 2021

Section 3

Audit Opinion and Certificate



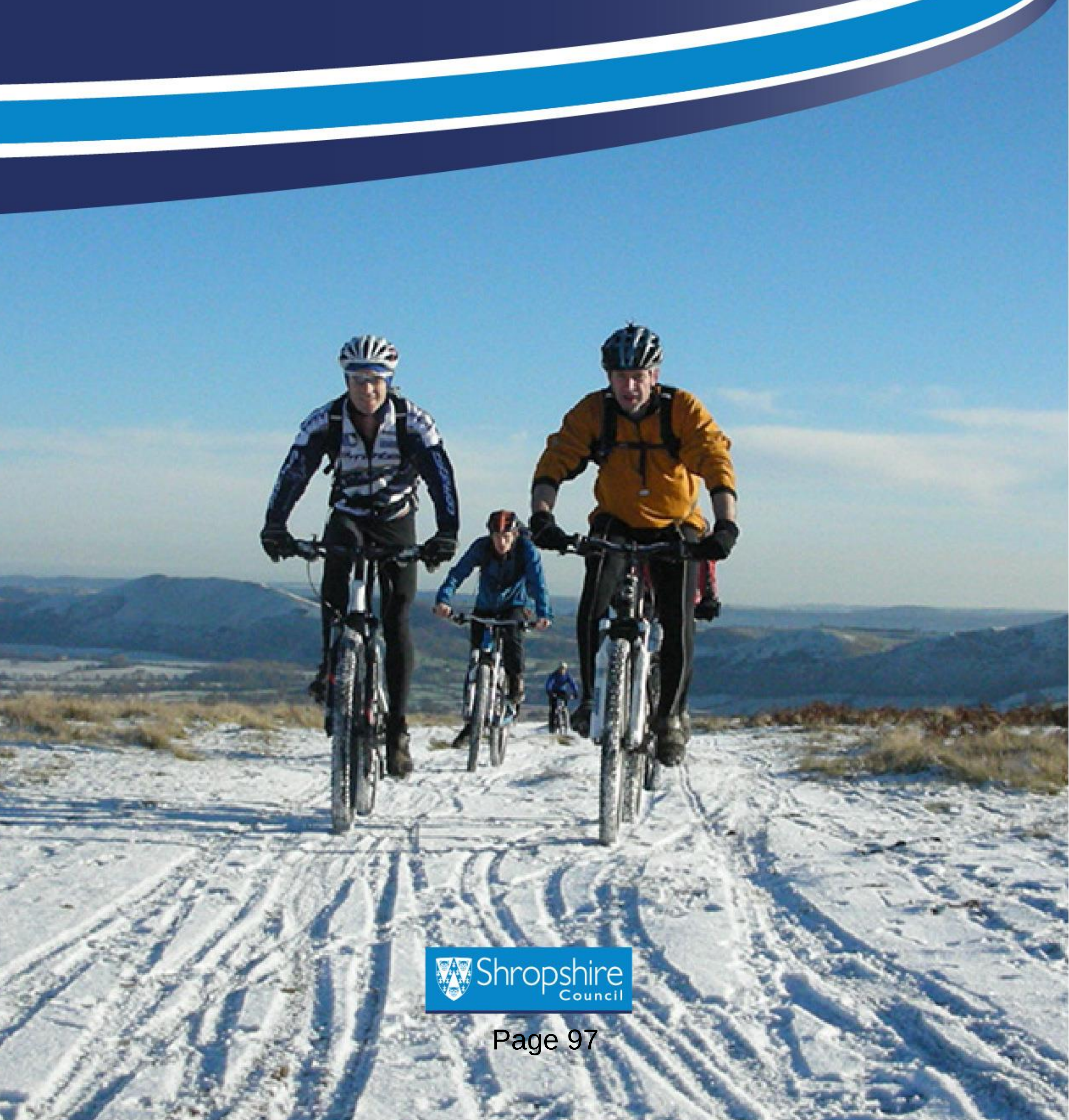
Audit Opinion and Certificate

Await final audit report from Grant Thornton

Audit Opinion and Certificate

Section 4

Core Financial Statements



Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2019/20				2020/21		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
			Expenditure on Continuing Services (Notes 6, 7, 8 and 9)			
177,619	(64,931)	112,688	Adult Social Care	191,718	(72,664)	119,054
10,380	(18,366)	(7,986)	Local Authority Housing	8,521	(18,419)	(9,898)
196,766	(127,946)	68,820	Children's Services	191,506	(121,393)	70,113
56,965	(54,188)	2,777	Finance, Governance and Assurance	55,490	(51,412)	4,078
1,703	(1,027)	676	Legal and Democratic Services	660	(119)	541
156,708	(45,499)	111,209	Place	155,637	(39,288)	116,349
0	0	0	Strategic Management Board	0	0	0
5,743	(61)	5,682	Workforce and Transformation	3,414	(486)	2,928
14,654	(10,121)	4,533	Corporate	38,197	(37,412)	785
620,538	**(322,139)**	**298,399**	**Net Cost of Services**	**645,143**	**(341,193)**	**303,950**
		27,542	Other Operating Expenditure (Note 12)			15,624
		39,556	Financing and Investment Income and Expenditure (Note 13)			43,629
		(292,441)	Taxation and Non Specific Grant Income (Note 14)			(319,838)
		73,056	**(Surplus) or Deficit on Provision of Services**			**43,365**
		(92,765)	(Surplus) or Deficit on Revaluation of Non-Current Assets			136,187
		0	Impairment Losses on Non-Current Assets Charged to the Revaluation Reserve			281
		(28,057)	Remeasurement of the Net Defined Benefit Liability			22,416
		(120,822)	**Other Comprehensive Income and Expenditure**			**158,884**
		(47,766)	**Total Comprehensive Income and Expenditure**			**202,249**

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2019/20	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2020	**13,510**	**67,993**	**81,503**	**10,140**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**
Transfer of Dedicated Schools grant deficit	0	2,247	2,247	0	0	0	2,247	(2,247)	0
Revised Opening Balance	**13,510**	**70,241**	**83,751**	**10,140**	**4,492**	**41,985**	**140,368**	**260,868**	**401,236**
<u>Movement in reserves during 2020/21</u>									
Surplus or (deficit) on the provision of services	(50,746)	0	**(50,746)**	7,381	0	0	**(43,365)**	0	**(43,365)**
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	**0**	(158,884)	**(158,884)**
Total Comprehensive Income and Expenditure	**(50,746)**	**0**	**(50,746)**	**7,381**	**0**	**0**	**(43,365)**	**(158,884)**	**(202,249)**
Adjustments between accounting basis & funding basis under regulations (Note 10)	74,674	0	**74,674**	(6,110)	1,458	3,102	**73,124**	(73,124)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**23,928**	**0**	**23,928**	**1,271**	**1,458**	**3,102**	**29,759**	**(232,008)**	**(202,249)**
Transfers to/(from) Earmarked Reserves (Note 11)	(23,348)	23,418	**70**	(70)	0	0	**0**	0	**0**
Increase/(Decrease) in 2020/21	**580**	**23,418**	**23,998**	**1,201**	**1,458**	**3,102**	**29,759**	**(232,008)**	**(202,249)**
Balance at 31 March 2021	**14,090**	**93,659**	**107,749**	**11,341**	**5,950**	**45,087**	**170,127**	**28,860**	**198,987**

Movement In Reserves Statement

2019/20	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**
Movement in reserves during 2019/20									
Surplus or (deficit) on the provision of services	(78,772)	0	**(78,772)**	5,716	0	0	**(73,056)**	0	**(73,056)**
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	**0**	120,822	**120,822**
Total Comprehensive Income and Expenditure	**(78,772)**	**0**	**(78,772)**	**5,716**	**0**	**0**	**(73,056)**	**120,822**	**47,766**
Adjustments between accounting basis & funding basis under regulations (Note 10)	73,083	0	**73,083**	(5,459)	252	7,587	**75,463**	(75,463)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(5,689)**	**0**	**(5,689)**	**257**	**252**	**7,587**	**2,407**	**45,359**	**47,766**
Transfers to/(from) Earmarked Reserves (Note 11)	3,663	(3,733)	**(70)**	70	0	0	**0**	0	**0**
Increase/(Decrease) in 2019/20	**(2,026)**	**(3,733)**	**(5,759)**	**327**	**252**	**7,587**	**2,407**	**45,359**	**47,766**
Balance at 31 March 2020	**13,510**	**67,993**	**81,503**	**10,141**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**

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Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

2019/20		2020/21	
£000		£000	£000
1,138,479	Property, Plant & Equipment (Note 15)	980,046	
2,260	Heritage Assets	2,193	
47,652	Investment Property (Note 16)	59,261	
7,376	Intangible Assets	6,393	
585	Assets Held for Sale	599	
1,196,352	**Total Non Current Assets**		**1,048,492**
20,206	Long Term Investment (Note 21)	400	
19,857	Long Term Debtors (Note 21)	22,628	
1,236,415	**Total Long Term Assets**		**1,071,520**
	Current Assets		
740	Current Held for Sale Investment Properties (Note 16)	250	
3,102	Assets Held for Sale	767	
64,500	Short Term Investments (Note 21)	70,000	
572	Inventories	697	
67,373	Short Term Debtors (Notes 21, 23 & 24)	99,834	
93,007	Cash & Cash Equivalents (Notes 21 & 25)	78,438	
229,294	**Total Current Assets**		**249,986**
1,465,709	**Total Assets**		**1,321,506**
	Current Liabilities		
(14,644)	Bank Overdraft (Notes 21 & 25)	(14,902)	
(6,013)	Short Term Borrowing (Note 21)	(13,893)	
(106,991)	Short Term Creditors (Notes 21 & 26)	(105,709)	
(3,576)	Provisions (Note 27)	(3,912)	
(10,446)	Grants Receipts in Advance - Revenue (Note 39)	(35,951)	
(4,893)	Grants Receipts in Advance - Capital (Note 39)	(11,773)	
(146,563)	**Total Current Liabilities**		**(186,140)**
1,319,146	**Total Assets Less Current Liabilities**		**1,135,366**
	Long Term Liabilities		
(649)	Long Term Creditors (Note 21)	(637)	
(303,568)	Long Term Borrowing (Note 21)	(291,568)	
(106,914)	Other Long Term Liabilities (Note 20)	(103,618)	
(495,700)	Pensions Liability (Note 42)	(531,883)	
(11,079)	Provisions (Note 27)	(8,673)	
(917,910)	**Total Long Term Liabilities**		**(936,379)**
401,236	**Net Assets**		**198,987**
	Financed by:		
138,121	Usable Reserves (Note 28)	170,127	
263,115	Unusable Reserves (Note 29)	28,860	
401,236	**Total Reserves**		**198,987**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

2019/20 £000	Revenue Activities	2020/21 £000	2020/21 £000
73,056	Net (surplus) or deficit on the provision of services	43,365	
(152,807)	Adjust net surplus or deficit on the provision of services for non cash movements	(120,052)	
55,113	Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities	70,353	
(24,638)	**Net cash flows from Operating Activities (Note 30)**		**(6,334)**
(5,390)	Investing Activities (Note 31)	(9,073)	
8,720	Financing Activities (Note 32)	30,234	
(21,308)	**Net (increase) or decrease in cash and cash equivalents**		**14,827**
57,055	Cash and cash equivalents at the beginning of the reporting period		78,362
78,363	**Cash and cash equivalents at the end of the reporting period (Note 25)**		**63,535**

Section 5

Notes to the Core Financial Statements

Shropshire Council

1. Accounting Policies

1.1 General

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices under Section 21 of the Local Government Act 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on the assumption that the Council will continue to operate for the foreseeable future. This assumption is made because the Council carries out functions essential to the local community and are themselves revenue-raising bodies. If the Council were in financial difficulty alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

1.2 Accruals of Expenditure and Income

Revenue transactions are recorded on an accruals basis in accordance with proper accounting practices. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Cash and Cash Equivalents

Cash is defined for the purpose of this statement, as cash in hand and deposits with financial institutions repayable on demand without penalty on notice. Cash equivalents are short term, highly liquid investments, normally with a maturity of 90 days or less, that are readily convertible to known amounts of cash.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5. Non-Current Assets - Intangible

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the Council (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually between five and seven years.

1.6. Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

<u>Recognition</u>
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

Initial Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at current value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
Operational	
Council Dwellings	Existing Use Value – Social Housing (EUV-SH)
Land & Buildings	Existing Use Value (EUV) – determined as the amount that would be paid for the asset in its existing use. Depreciated Replacement Cost (DRC) – for specialist properties where there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold.
Vehicles, Plant & Equipment	Depreciated Historic Cost (HC)
Infrastructure	Historic Cost (HC)
Community Assets	Historic Cost (HC)
Non-operational	
Surplus Assets	Market Value (MV) fair value measurement estimated at highest and best use from a market participant's perspective.
Assets Under Construction	Historic Cost (HC)

Assets included in the Balance Sheet at current value are subject to a full revaluation with sufficient regularity to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. In the intervening years the valuations are subject to an annual desktop review to update the valuation to the balance sheet date.

When new material assets are acquired/constructed or assets substantially enhanced or there is a change in use of the asset; the asset will be valued in the financial year in which the asset becomes operational. Where there is a change in use of the asset, the impact of this will be considered to determine if a revaluation is required.

The Housing Revenue Account Council Dwellings are subject a full valuation every five years and to an annual desktop review to update the valuation to the balance sheet date; undertaken by the Valuation Office Agency.

When an asset is revalued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 1.9), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in the Surplus or Deficit on the Provision of Services.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset and they have substantially different economic lives, they are recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010. Significant assets for this purpose are properties with a capital value of £2.5m or over, where depreciation is £100,000 per annum or over, or any component that represents 25% of the total capital value.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount, an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (based on Agreement – Section 11(6) of the Local Government Act 2003) of receipts relating to dwellings disposed of under the Right to Buy Scheme are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a 'housing pooled capital receipt' is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance in the Movement in Reserves Statement.

Where a component of an asset is replaced or restored, the carrying amount of the old component is derecognised, based on the cost of the new component indexed back to the last valuation date. Where the new expenditure is deemed to also enhance the component of the original asset e.g. energy efficiency schemes the carrying amount of the old component is reduced further based on an assessment of the level of enhancement.

1.7. Investment Properties

An investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. As such Investment Properties are subject to an annual review to ensure their valuation reflects fair value at the balance sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.8. Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of, reclassified to short terms investment properties where they are expected to be disposed of within a year of the balance sheet date.

1.9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter in the Surplus or Deficit on the Provision of Services.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.10. Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with the exception of:

- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method. For Council Dwellings the depreciation charge is calculated on a componentised depreciation basis, using the Planned Programme Approach. The depreciation charge is calculated based on the stock data at 1st April, using the stock data of the major components at that date, from the housing condition data. The components are depreciated on a straightline basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.

On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

1.11. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used on assets used by the service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible assets attributable to the service.

Depreciation, amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings and other properties, which are real charges to the HRA.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 1.15 (The Redemption of Debt). Depreciation, amortisation and revaluation/impairment losses are therefore replaced by revenue provision transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 1.10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement in Reserves Statement.

1.12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and shown as a reconciling item in the Movement in Reserves Statement.

1.13. Heritage Assets

Tangible Heritage Assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. Intangible heritage assets are intangible assets with cultural, environmental, or historical significance.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, due to the unique nature of Heritage Assets, some of the measurement rules are relaxed in relation to the categories of Heritage Assets held as detailed below. This is due to the lack of valuation information and the disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.

- **Outdoor Statues/Monuments/Historic Building Remains**

The Council has a small number of assets relating to Outdoor Statues/ Monuments/ Historic Building Remains. These assets are reported on the balance sheet, but valuation of these assets is not practical due to the unique nature and lack of comparable market values. These assets are held on the balance sheet at depreciated historic cost, where this is available. Where historic cost information is not available due to the age of the asset, the assets are held at nil value.

The Council's Historical Environment Team, including the Shropshire Archaeology Service manage the Council's historic environment and archaeological sites. The Council does not consider that reliable cost or valuation information can be obtained for the assets held under the Historic Environment and Archaeology Service and the majority would fall into the de-minimus category. This is because of the unique nature of the assets held and lack of comparable market values. It is also recognised that the cost of obtaining this information outweighs any benefits. Consequently, the Council does not recognise these assets on the balance sheet, other than those included under Statues/Monuments/Historic Building Remains.

- **Museum and Archives artefacts**

<u>Museum Service</u>

The Shropshire Museum Service runs a countywide service which collects, documents, preserves, exhibits and interprets the material remains of Shropshire's natural and human history for public benefit. The service operates six museums and a museum resource centre.

Principal collections held by the Museum Service include:

- Agricultural
- Archaeology (including Prehistory, Roman, Medieval, Post-Medieval and Foreign)
- Archives
- Biology
- Costume & Textiles
- Decorative & Applied Arts

- Ethnography
- Fine Art
- Geological
- Numismatics
- Social History

The acquisition priorities vary between the principal collections based on existing gaps in the collection and the capabilities and resources available to the service to adequately store, conserve and display collections.

The Museum Service exercises due diligence and makes every effort not to acquire, whether by purchase, gift, bequest or exchange, any object or specimen unless the governing body can acquire a valid title to the item.

By definition, the Museum Service has a long-term purpose and should possess permanent collections in relation to its stated objectives. As a consequence there is a strong presumption against the disposal of any items in the museum's collection. In the event of the Museum Service closing the collections would be offered to other museum authorities and neither the collections nor individual items within them would be sold to generate income.

Complete holdings are not valued, as items are generally unique and full valuation would be extremely expensive; however, some significant items have a market valuation at purchase or insurance valuation. As a consequence only those items for which the Museum Service holds an existing valuation (above a de-minimus threshold of £5,000) are recognised in the balance sheet. These principally consist of fine art paintings and items of decorative art. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Any new acquisitions will be recognised at purchase price valuation. Assets are not subject to a revaluation cycle, with revaluations only undertaken where required by the Museum Service.

<u>Archives</u>

The Shropshire archives and local studies service preserves and make accessible documents, books, maps, photographs, plans and drawings relating to Shropshire past and present. Not all material is owned by the Council, with a significant proportion on deposit from record owners. No reliable cost or valuation information is held for holdings, with items generally unique and valuation would be considered to be extremely expensive. Consequently the Council does not recognise these assets on the balance sheet.

Shropshire Archives has an Acquisition and Disposal policy. Shropshire Archives will acquire material for the study of all aspects of Shropshire past and present. Material will be acquired by transfer, gift, purchase or deposit. Shropshire Archives will only acquire material if the responsible officer is satisfied that the vendor, donor or depositor has a valid title to the material and will not acquire material if it cannot provide adequate storage or professional care for it. There is a strong presumption against the disposal by sale of any material in Shropshire Archives ownership. If materials are to be sold they should first be offered to other appropriate public collecting institutions. All monies received by Shropshire Archives from the sale of material shall be used for the benefit of the Service's collections.

Heritage Assets – Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance capital expenditure, used to finance expenditure under the new flexibilities around the use of Capital Receipts for transformational revenue purposes over the 4 year period 2019/20 to 2022/23 or are used to repay debt. At the balance sheet date, the Council may opt to set aside capital receipts in-hand within the Capital Adjustment Account to reduce the Capital Financing Requirement and the Minimum Revenue Provision (MRP) charge for the following financial year.

1.15. The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory "Minimum Revenue Provision" (MRP) requirements. For supported borrowing MRP is calculated based on a 45 year annuity basis and utilises Adjustment A (the variance between the credit ceiling and the Capital Financing Requirement (CFR) as at 1st April 2004) to reduce the supported borrowing CFR for MRP purposes. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. These amounts are transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

For HRA debt there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA.

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

1.16. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term;

2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised;

3) the lease term is for the major part of the economic life of the asset;

4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

The Council as Lessee

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Council's Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land and buildings are assessed as to whether they are operating or finance leases.

The Council as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.17. Government Grants and Contributions

Revenue Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. If there are outstanding conditions on the grant income the income is held on the Balance Sheet as a Government debtor/creditor. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

Capital Grants

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Council has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL) with effect from 1 January 2012. The levy applies to planning applications for the following types of development:

- The formation of one or more new dwellings, (including holiday lets), either through conversion or new build, regardless of size (unless it is 'affordable housing'); or
- The establishment of new residential floor space (including extensions and replacements) of 100sqm or above.

The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects. This will largely be capital expenditure and includes roads and other transport schemes, flood defences, schools and other education facilities, medical facilities, sporting and recreation facilities and open spaces. Five percent of CIL charges will be used to meet the administrative costs of operating the levy.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the Council CIL instalment policy, following commencement date of the chargeable development in accordance with the accounting policy for government grants and contributions set out above.

The only exception for this is CIL monies received on developments where the CIL Liability Notice has been issued after 25th April 2013. On these receipts 15% of gross receipt or 25% in areas with a statutory Neighbourhood Plan in place; is treated as the Neighbourhood Fund element. The Neighbourhood Fund is the portion of CIL provided directly to Town and Parish Councils to be used for the provision, improvement, replacement, operation or maintenance of infrastructure or anything else which is concerned with addressing the demands that development places on an area.

1.18. Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

Financial Assets Measured at Fair Value through Profit of Loss

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued interest receivable at the year end. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial Statements, instead Note 21 to the Core Financial Statements provides details about these soft loans.

Financial Assets Measured at Fair Value through Profit of Loss
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model
The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.19. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

1.21. Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u>

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefits is not required, the provision is reversed and credited back to the relevant service.

<u>Contingent Liabilities</u>

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but any material liabilities will be disclosed in a separate note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if it is probable that there will be an inflow of economic benefits or service potential and the sum is material to the accounts.

1.22. Inventories

Inventories and stock are valued at the lower of cost price or net realisable value.

1.23. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2020/21. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

1.24. Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IFRS10 – Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS12 – Disclosure of Interest in Other Entities, IAS 27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting. Subsidiaries and joint ventures have been consolidated within the Council's accounts on a cost basis or market value for property, plant and equipment. Accounting policies have been aligned between the Council and the companies consolidated in the Group.

1.25. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure. All VAT receivable is excluded from income.

1.26. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave, termination benefits and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement relating to the Spring Term. An accrual has been calculated for other staff based on the amount of untaken leave as at 31 March.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. The cost of these are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure statement.

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The NHS Pensions Scheme, administered by NHS Pensions;
- The Local Government Pensions Scheme, administered by Shropshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However, the arrangements for the Teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the two schemes in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration)
- The assets of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Shropshire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.28. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

1.29. Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document. The Council is deemed to control the services provided under these two PFI schemes, and as ownership of property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the QICS scheme, the liability was written down by an initial capital contribution of £2.5m. At the commencement of the Waste contract the Council made various existing waste infrastructure assets available to the contractor. Under the Waste scheme, not all property, plant and equipment scheduled to be provided in the initial years of the contract has been provided and as a result part of the payments made to the scheme operator have been accounted for as a prepayment, with a corresponding entry also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **Finance cost** – an interest charge as a percentage (based on the Internal Rate of Return of the scheme) of the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out. On recognising the prepayment for lifecycle replacement costs a corresponding entry is also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account. Where works are carried out earlier than planned they are recognised as additions to Property, Plant and Equipment balanced by a temporary increase in the finance lease liability. When the programmed payment takes place the liability is written down.

1.30. Accounting for Council Tax and Non Domestic Rates

The Council Tax income included in the Comprehensive Income & Expenditure Statement is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

As the collection of Council Tax for preceptors (the West Mercia Police and Crime Commissioner, and Shropshire & Wrekin Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Shropshire Council as the billing authority and to the preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation. The Balance Sheet also includes the authority's share of the year end balances relating to arrears, impairment allowances for doubtful debts and prepayments.

In relation to Non-Domestic Rates, Shropshire Council collects income due as an agency arrangement. As with council tax, the cash collected belongs proportionately to Shropshire Council as the billing authority, and to Central Government and Shropshire & Wrekin Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation. The Balance Sheet also includes the authority's share of the year end balances relating to arrears, impairment allowances for doubtful debts, appeals and prepayments.

1.31. Accounting for Local Authority Maintained Schools

All Local Authority Maintained Schools in the Council area are considered to be entities controlled by the Council. In order to simplify the consolidation process and avoid consolidating in Group Accounts a considerable number of separate, relatively small entities; the Council's single entity financial statements include all the transactions of Local Authority Maintained Schools i.e. income, expenditure, assets, liabilities, reserves and cash flows of the schools.

The Council has the following types of maintained schools under its control:

- Community

- Voluntary Aided
- Voluntary Controlled
- Foundation

The Council recognises on balance sheet the non-current assets of schools where the Council legally owns the assets or where the school is in the legal ownership of a non religious body, on the basis that they are the assets of the school and need to be consolidated in to the Council's accounts.

Community schools are owned by the Council and therefore recognised on the balance sheet.

The majority of Voluntary Aided and Voluntary Controlled schools in the Council area are owned by the respective Diocese. There is currently no legal arrangement in place for the School/Council to use the Diocese owned schools. The School/Council uses the school building to provide education under the provisions of the School Standards and Framework Act 1998. On this basis the school assets are used under "mere" licences and the assets are not recognised on the Council's balance sheet. The only exception to this is there are a small number of schools/part of schools that should have transferred to Diocese under Education Legislation; but the legal transfer has not been completed. These are still recognised in the Council balance sheet with an additional note disclosing that they are due to transfer.

Foundation schools owned by the Diocese are not recognised on the Council balance sheet as the position is the same as Voluntary Aided and Voluntary Controlled. Where ownership lies with the school or the school's Governing Body the School is recognised on the Council's Balance Sheet. There are a small number of schools who have recently changed their status to Foundation as part of local area Education Trusts. As yet no legal transfers have taken place of school land and buildings. On the assumption that these trusts will constitute the Governing Bodies of these schools, the schools are to remain on-balance sheet. This will be reviewed when the legal transfers are agreed in case the position is different.

Academy schools are not maintained schools controlled by the Council and as such are not accounted for in the Council's Accounts. Schools in Council ownership (Community Schools) which become Academies are provided to the Academy on a 125 year peppercorn lease. When schools transfer to Academy status the assets are written out of the balance sheet as at the date that the asset transfers. Additional notes are included in the accounts disclosing details of any schools where approval by the Department for Education to transfer the School to Academy has been granted, but the school has not transferred by the balance sheet date.

1.32. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

1.33. Unquoted Equity Investments

The Council held a majority share of the units in a Jersey Property Unit Trust. The minority share was held by wholly owned subsidiary of the Council - SSC NO.1 LTD a company registered in England and Wales. The asset was held on the Balance Sheet at fair value through profit and loss and valued annually. The Council and SSC NO.1 LTD were the beneficial owners of the property, through the trust, the nature of the trust is such that the Council has overall control of the trust through reserved matters. The trustees, who have to be resident in Jersey, make all day to day decisions affecting the trust in the best interests of the unit holders. The trust deeds set out that income and expenditure accrues to the unitholders as it arises and it is presented as such within these financial statements.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2021/22 Code:

- Amendments to IFRS 3 Business Combinations – Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform Phase 2

These changes are not expected to have a material impact on the Council's accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty regarding future levels of funding for local government. The Council has undertaken the rigorous challenge of reviewing its spending and as a result has ensured appropriate savings are built into its medium term financial plans. The Council has determined that this uncertainty regarding future funding levels is not known in sufficient enough detail to provide an indication that its assets would be impaired or services reduced significantly. Any action to reduce spending would be taken in a planned and systematic way to reduce the impact on service delivery.

- The Council takes judgements over the element of control in terms of deciding which assets should be on our balance sheet. One such judgement has been taken around Local Authority Maintained schools and particularly Voluntary Aided, Voluntary Controlled and Foundation schools that are not owned by the Council. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the school's land and buildings on its Balance Sheet where it legally owns the assets or the school Governing Body own the school. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

  The Council has completed an assessment of the different types of schools it controls within the Shropshire Council area to determine how these should be accounted for. The accounting treatment is detailed in the accounting policies (see 1.31).

- The Council has taken a judgement on the control of the Jersey Property Unit Trusts and has determined that through the Council's power as a unit holder the Council has the rights to variable returns and has the ability to affect those returns. The Council has therefore accounted for the Council's share in the Jersey Property Unit Trust as an investment.

- During 2020/21 the Council received a number of grants relating to the covid-19 pandemic. The Council has made a judgement as to whether it is acting as an agent for the Government in relation to the distribution of these grants or as the principal based on the criteria of each grant. Where the Council are deemed to be acting as an agent transactions are not reflected in the Council's accounts with the exception of a debtor, creditor and net cash position on the Balance Sheet. Details of the covid-19 grants where the Council has deemed it is acting as an agent are included in Note 39.

- The Council is part of the Marches Local Enterprise Partnership (LEP) along with Herefordshire and Telford & Wrekin. The Council acts as accountable body for the LEP and therefore receives grant income on behalf of the LEP and processes expenditure in line with the grant schemes. The Council has concluded that the role of accountable body is to be deemed as an agent as the decisions in relation to the allocation of the funding is made by the LEP, and therefore only the net grant held and corresponding creditor is included within the Council's accounts. Further details are provided at Note 45.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There is a risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2021:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Full valuation is carried out a minimum of every 5 years. A desktop valuation review is carried out to update all valuations annually to the Balance Sheet date.	There is a risk of material adjustment in the year when the property is revalued. A 1% increase in property valuations would result in a £2.050m increase in the valuation of Council dwellings and a £3.809m increase in the value of other land and buildings.
	Estimates of remaining useful economic life are provided as part of the valuation and are used to calculate the depreciation charge on a straightline basis.	There is a risk that annual depreciation charges are over or under stated and also correspondingly the NBV of the asset. This could also result in a risk of material adjustment in the year when the property is revalued.
Investment Properties	As they are valued on a Market Value basis and can be more susceptible to valuation swings, linked to underlying market conditions and other asset specific changes; Investment Properties are subject to an annual valuation review and update to ensure the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date.	A 1% movement in Investment Property valuations would result in a £0.595m movement in the valuation of Investment Properties.
NDR Appeals Provision	The provision set aside for Non Domestic Rate appeals is estimated based on the number of outstanding appeals as per the Valuation Office and then the percentage rateable value change	There is a risk that successful appeals will be significantly more than the estimate leading to an increased demand on the NDR collection fund in the year.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	of successful appeals is applied. An estimate is then calculated for unlodged appeals on the new rating list.	
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £23.192m.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured or based on quoted prices in active markets (i.e. level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes to below.	The authority uses the discounted cash flow model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.
Accruals	Estimates of known future expenses or income where amounts are not yet certain are accrued in the year that they relate to. The proportion of estimates within the accruals processed for debtors and creditors are: • Debtors 22% • Creditors 17%	The expense or the income could be either higher or lower than expected. A 10% increase in the estimates for debtors would result in an additional debtor of £0.140m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.218m.
Debt Impairment	The balance of outstanding debtors, including Council Tax and Business Rates debtors, is assessed annually and a bad debt provision calculated to estimate the potential liability from non collection of the outstanding debts. The ongoing impact of COVID-19 has created uncertainly around future collection rates. The estimated impact of this has been included in the calculation however the long-term impact of this is currently unknown.	There is a risk that if collection rates were to deteriorate then the allowance for the impairment of bad debts would need to increase.

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Executive Director of Resources on xx September 2021. Events taking place after this date are not reflected in the financial statement or notes.

At balance sheet date, Department of Education approval had been granted to two schools to convert to Academy status. One of which has converted to Academy School status in early 2021/22 financial year, this school was in part Council freehold ownership and a lease to the Academy school on a 125 year peppercorn rent has been completed as part of the transfer. The value of the school and associated facilities in the 2020/21 accounts is £3.85m. The remaining school is in Diocese ownership. This is considered as a non-adjusting event after the reporting date.

6. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20						2020/21				
Net expenditure reported for resource management £000	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net expenditure reported for resource management £000	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
109,080	333	109,413	3,275	112,688	Adult Services	117,726	(2,582)	115,144	3,910	119,054
0	(3,098)	(3,098)	(4,888)	(7,986)	Local Authority Housing	0	(4,180)	(4,180)	(5,718)	(9,898)
57,167	(2,312)	54,855	13,965	68,820	Children's Services	56,905	(2,107)	54,798	15,315	70,113
2,326	241	2,567	210	2,777	Finance, Governance & Assurance	2,527	1,335	3,862	216	4,078
392	29	421	255	676	Legal and Democratic Services	646	(145)	501	40	541
64,481	(7,605)	56,876	54,333	111,209	Place	63,495	(4,921)	58,574	57,775	116,349
(107)	107	(0)	0	(0)	Strategic Management Board	373	(373)	0	0	0
607	4,625	5,232	450	5,682	Workforce and Transformation	379	1,661	2,040	888	2,928
(18,456)	20,620	2,164	2,369	4,533	Corporate	(17,293)	22,108	4,815	(4,030)	785

2019/20 Net expenditure reported for resource management	2019/20 Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	2019/20 Net Expenditure Chargeable to the General Fund and HRA Balances	2019/20 Adjustments between the Funding and Accounting Basis	2019/20 Net Expenditure in the Comprehensive Income and Expenditure Statement		2020/21 Net expenditure reported for resource management	2020/21 Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	2020/21 Net Expenditure Chargeable to the General Fund and HRA Balances	2020/21 Adjustments between the Funding and Accounting Basis	2020/21 Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
215,490	**12,940**	**228,430**	**69,969**	**298,399**	**Net Cost of Services**	**224,758**	**10,796**	**235,554**	**68,396**	**303,950**
0	(222,998)	(222,998)	(2,345)	(225,343)	Other Income and Expenditure	0	(260,753)	(260,753)	168	(260,585)
215,490	**(210,058)**	**5,432**	**67,624**	**73,056**	**Surplus or Deficit**	**224,758**	**(249,957)**	**(25,199)**	**68,564**	**43,365**
		97,076			Opening General Fund and HRA Balance			91,644		
					Transfer of Dedicated Schools Grant Deficit			2,247		
					Revised Opening General Fund and HRA Balance			93,891		
		(5,432)			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			25,199		
		91,644			**Closing General Fund and HRA Balance at 31 March***			**119,090**		

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2020/21												
Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Capital items reported at Directorate level (note 1) £000**	**Pension items reported at Directorate level (note 1) £000**	**Reserves reported at Directorate level (note 1) £000**	**Interest Payable and Receivable reported at Directorate level (note 2) £000**	**Reallocation of traded services and internal recharges (note 2) £000**	**Investment properties/Levies/revenue impairment reported at Directorate level (note 2) £000**	**Other Adjustments (note 3) £000**	**Total to arrive at amount charged to the general fund & HRA £000**	**Adjustments for Capital Purposes £000**	**Net change for the Pensions Adjustments £000**	**Other Differences £000**	**Total Adjustment between funding and accounting basis £000**
Adult Services	0	(2,005)	(1,025)	0	(276)	(739)	1,463	(2,582)	1,745	2,004	161	3,910
Local Authority Housing	0	0	0	0	0	0	(4,180)	(4,180)	(5,718)	0	0	(5,718)
Children's Services	0	(2,694)	(2,491)	(194)	438	336	2,498	(2,107)	14,044	2,694	(1,423)	15,315
Finance, Governance & Assurance	0	(227)	0	6	178	210	1,168	1,335	(11)	227	0	216
Legal & Democratic Services	0	(38)	0	0	(107)	0	0	(145)	2	38	0	40
Place	0	(1,723)	5,335	(12,675)	(2,299)	485	5,956	(4,921)	55,924	1,724	127	57,775
Strategic Management Board	0	0	0	0	(379)	0	6	(373)	0	0	0	0
Workforce & Transformation	0	(178)	810	(13)	910	0	132	1,661	710	178	0	888
Corporate	0	7,618	(25,541)	(8,946)	(132)	(7)	49,116	22,108	(4,359)	646	(317)	(4,030)
Net Cost of Services	**0**	**753**	**(22,912)**	**(21,822)**	**(1,667)**	**285**	**56,159**	**10,796**	**62,337**	**7,511**	**(1,452)**	**68,396**
Other Income and Expenditure from the Expenditure and Funding Analysis	0	(753)	(252)	21,822	1,667	(285)	(282,952)	(260,753)	(35,828)	12,020	23,976	168
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**0**	**(0)**	**(23,164)**	**0**	**0**	**0**	**(226,793)**	**(249,957)**	**26,509**	**19,531**	**22,524**	**68,564**

2019/20

Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Capital items reported at Directorate level (note 1) £000	Pension items reported at Directorate level (note 1) £000	Reserves reported at Directorate level (note 1) £000	Interest Payable and Receivable reported at Directorate level (note 2) £000	Reallocation of traded services and internal recharges (note 2) £000	Investment properties/Levies reported at Directorate level (note 2) £000	Other Adjustments (note 3) £000	Total to arrive at amount charged to the general fund & HRA £000	Adjustments for Capital Purposes £000	Net change for the Pensions Adjustments £000	Other Differences £000	Total Adjustment between funding and accounting basis £000
Adult Services	0	(1,803)	2,731	0	(502)	(142)	49	333	1,456	1,803	16	3,275
Local Authority Housing	0	0	0	0	0	0	(3,098)	(3,098)	(4,888)	0	0	(4,888)
Children's Services	0	(2,728)	266	(152)	458	(373)	217	(2,312)	10,836	2,728	401	13,965
Finance, Governance & Assurance	0	(209)	0	0	279	171	0	241	0	210	0	210
Legal & Democratic Services	0	(26)	121	0	(66)	0	0	29	229	26	0	255
Place	0	(1,596)	6,607	(11,941)	(1,660)	715	270	(7,605)	52,727	1,596	10	54,333
Strategic Management Board	0	0	0	0	107	0	0	107	0	0	0	0
Workforce & Transformation	0	(197)	3,115	0	1,707	0	0	4,625	253	197	0	450
Corporate	0	7,271	(9,374)	(8,882)	224	34	31,347	20,620	(4,298)	6,986	(319)	2,369
Net Cost of Services	**0**	**712**	**3,466**	**(20,975)**	**547**	**405**	**28,785**	**12,940**	**56,315**	**13,546**	**108**	**69,969**
Other Income and Expenditure from the Expenditure and Funding Analysis	0	(712)	744	20,975	(547)	(405)	(243,053)	(222,998)	(14,225)	12,277	(397)	(2,345)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**0**	**0**	**4,210**	**0**	**0**	**0**	**(214,268)**	**(210,058)**	**42,090**	**25,823**	**(289)**	**67,624**

Note 1) For resource management purposes, the authority includes depreciation, pension charges in relation to IAS19 debits and credits in its directorate reporting, however this needs to be removed as it is not included in the net expenditure chargeable to the general fund and HRA balances.

Note 2) The authority includes income and expenditure in relation to investment properties, interest payable and receivable, levies and trading accounts within the Directorates however this is reported in the financial statements below the cost of services line and therefore the above table shows these items being reallocated. The income and expenditure for Corporate Landlord and Passenger Transport is also adjusted within the amendments for trading/internal recharges.

Note 3) Corporate Funding and Housing Revenue Account are not reported to management as part of the Service Area reporting therefore these items have been included as adjustments in the above table.

Adjustments for Capital Purposes

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
   - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
   - Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
   - Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
   - For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
   - For Financing and investment income and expenditure – the net interest in the defined benefit liability is charged to the CIES.

Other Differences

3) Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
   - For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
   - The transfer of any deficit arising on the Dedicated Schools Grant to the Dedicated Schools grant adjustment account
   - The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted

accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2020/21 £000	2019/20 £000
Expenditure		
Employee benefits expenses	187,329	196,150
Other service expenses	421,957	395,127
Support service recharges	32,906	32,314
Depreciation, amortisation, impairment	78,028	68,574
Interest payments	26,179	25,916
Precepts and levies	9,072	8,339
Payments to Housing Capital Receipts Pool	560	584
(Gain)/Loss on the disposal of assets	5,992	18,532
Total Expenditure	**762,023**	**745,536**
Income		
Fees, charges and other service income	(156,368)	(165,491)
Interest and investment income	(1,450)	(2,129)
Income from council tax, non-domestic rates	(204,513)	(216,514)
Government grants and contributions	(356,327)	(288,346)
Total Income	**(718,658)**	**(672,480)**
Surplus or Deficit on the Provision of Services	**43,365**	**73,056**

9. REVENUE CONTRACTS WITH CUSTOMERS

The Council's income from revenue contracts with customers is analysed by Service Area as follows:

Fees, charges and other service income	2020/21 £000	2019/20 £000
Adult Services	(48,620)	(42,698)
Local Authority Housing	(18,442)	(18,389)
Children's Services	(8,493)	(12,722)
Finance, Governance and Assurance	(8,882)	(8,669)
Legal and Democratic Services	(4,473)	(4,960)
Place	(44,378)	(59,116)
Strategic Management Board	(913)	(1,034)
Workforce and Transformation	(19,549)	(17,337)
Corporate	(2,618)	(566)
Total Income	**(156,368)**	**(165,491)**

10. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2020/21	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	19,531	0	0	0	0	(19,531)
Financial instruments	(317)	0	0	0	0	317
Council tax and NDR	23,730	0	0	0	0	(23,730)
Holiday pay	698	0	0	0	0	(698)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	42,782	(4,001)	4,096	0	8,679	(51,556)
Dedicated Schools grant	(1,588)	0	0	0	0	1,588
Total Adjustments to Revenue Resources	**84,836**	**(4,001)**	**4,096**	**0**	**8,679**	**(93,610)**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(2,340)	(1,782)	0	4,907	0	(785)
Administrative costs of non-current asset disposals	12	34	0	(46)	0	0
Payments to the government housing receipts pool	560	0	0	(560)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(8,312)	0	0	0	0	8,312
Capital expenditure financed from revenue balances	(82)	(361)	0	0	0	443
Total Adjustments between Revenue and Capital Resources	**(10,162)**	**(2,109)**	**0**	**4,301**	**0**	**7,970**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(5,869)	0	5,869

2020/21	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(2,638)	0	0	2,638
Application of capital grants to finance capital expenditure	0	0	0	0	(5,577)	5,577
Cash payments in relation to deferred capital receipts	0	0	0	1,568	0	(1,568)
Total Adjustments to Capital Resources	**0**	**0**	**(2,638)**	**(4,301)**	**(5,577)**	**12,516**
Total Adjustments	**74,674**	**(6,110)**	**1,458**	**0**	**3,102**	**(73,124)**

2019/20 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	25,822	0	0	0	0	(25,822)
Financial instruments	(319)	0	0	0	0	319
Council tax and NDR	(412)	0	0	0	0	412
Holiday pay	441	0	0	0	0	(441)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	59,610	(1,139)	3,953	0	14,227	(76,651)
Total Adjustments to Revenue Resources	**85,142**	**(1,139)**	**3,953**	**0**	**14,227**	**(102,183)**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(2,465)	(2,633)	0	5,765	0	(667)
Administrative costs of non-current asset disposals	36	51	0	(87)	0	0
Payments to the government housing receipts pool	584	0	0	(584)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(6,990)	0	0	0	0	6,990
Capital expenditure financed from revenue balances	(3,224)	(1,738)	0	0	0	4,962

2019/20 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Total Adjustments between Revenue and Capital Resources	**(12,059)**	**(4,320)**	**0**	**5,094**	**0**	**11,285**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(5,135)	0	5,135
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(3,701)	0	0	3,701
Application of capital grants to finance capital expenditure	0	0	0	0	(6,640)	6,640
Cash payments in relation to deferred capital receipts	0	0	0	41	0	(41)
Total Adjustments to Capital Resources	**0**	**0**	**(3,701)**	**(5,094)**	**(6,640)**	**15,435**
Total Adjustments	**73,083**	**(5,459)**	**252**	**0**	**7,587**	**(75,463)**

11. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2020/21.

	Balance at 31 March 2019 £000	Transfers Out 2019/2020 £000	Transfers In 2019/20 £000	Balance at 31 March 2020 £000	Transfer of DSG Deficit to Unusable Reserve £000	Restated Opening Balance at 31 March 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Balance at 31 March 20 £000
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations	17,408	(4,363)	3,081	16,126	0	16,126	(3,152)	4,531	17,505
Insurance Reserves	3,942	(278)	100	3,764	0	3,764	(377)	352	3,739
Reserves of trading and business units	478	(536)	58	0	0	0	(197)	197	0
Reserves retained for service departmental use	43,471	(22,080)	22,518	43,909	0	43,909	(23,838)	44,299	64,370
School Balances	6,427	(6,078)	3,845	4,194	2,247	6,442	(5,418)	7,021	8,045
Total	**71,726**	**(33,335)**	**29,602**	**67,993**	**2,247**	**70,241**	**(32,982)**	**56,400**	**93,659**

RESERVES

Sums set aside for major schemes, such as capital developments, or to fund major reorganisations – includes redundancy reserve, and specific reserves to fund capital and major projects including service transformation within the Council.

Insurance Reserves – includes fire liability and motor insurance reserves to fund the Council's future self insurance liabilities.

Reserves of trading and business units – includes any balance carried forward in relation to Shire Services to help smooth trading profits and losses over future years.

Reserves retained for service departmental use – includes a number of specific earmarked reserves for known service expenditure in future years. Significant balances include the Covid Government Funding Reserve, Financial Strategy reserve, a savings management for highways reserve, a severe weather reserve and a reserve including unringfenced revenue grants that have not been spent.

School Balances – includes unspent balances of budgets delegated to individual schools.

A breakdown of all specific earmarked reserve balances is shown in the 2020/21 Revenue Outturn report.

12. OTHER OPERATING EXPENDITURE

	2020/21 £000	2019/20 £000
Parish Council Precepts	8,940	8,211
Levies	132	128
Payments to the Government Housing Capital Receipts Pool	560	584
(Gains)/losses on the disposal of non-current assets*	5,454	18,279
(Gains)/losses on change in valuation of non-current assets	538	340
	15,624	**27,542**

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020/21 £000	2019/20 £000
Interest payable and similar charges	26,179	25,916
Pensions interest cost and expected return on pensions assets	11,267	11,565
Interest receivable and similar income	(1,450)	(2,128)
Income and expenditure in relation to investment properties and changes in their fair value	(1,328)	2,625
Revenue Impairment Losses	1,099	461
(Surpluses)/deficits on Trading Activities	7,862	1,117
	43,629	**39,556**

14. TAXATION AND NON SPECIFIC GRANT INCOMES

	2020/21 £000	2019/20 £000
Council tax income	(172,667)	(165,000)
Non domestic rates	(31,846)	(51,514)
Non ringfenced government grants	(66,559)	(38,002)
Capital grants and contributions	(48,766)	(37,925)
	(319,838)	**(292,441)**

15. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non-current assets held by the Council during 2020/21.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2020	**200,025**	**555,040**	**22,299**	**543,270**	**2,961**	**2,725**	**12,863**	**1,339,183**	**143,605**
Additions	4,496	1,373	1,131	29,991	0	0	7,345	**44,336**	916
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(56)	(151,072)	0	0	0	(120)	0	**(151,248)**	(21,261)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,447	(32,747)	0	0	0	(353)	0	**(31,653)**	9
Derecognition – disposals	(922)	(4,976)	0	0	0	0	0	**(5,898)**	0
Derecognition – other	(132)	(966)	(1,727)	(1,575)	(481)	0	0	**(4,881)**	(1,448)
Assets reclassified (to)/from Held for Sale	13	0	0	0	0	0	0	**13**	0
Other movements in cost or valuation	(99)	14,274	0	1,109	0	0	(5,474)	**9,810**	0
At 31 March 2021	**204,772**	**380,926**	**21,703**	**572,795**	**2,480**	**2,252**	**14,734**	**1,199,662**	**121,821**
At 1 April 2020	**0**	**0**	**(8,999)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,704)**	**(6,686)**
Deprecation charge for 2020/21	(4,048)	(17,315)	(3,073)	(19,291)	(113)	(54)	0	**(43,894)**	(6,877)

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Depreciation written out to the Revaluation Reserve	137	14,917	0	0	0	7	0	**15,061**	4,663
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,911	2,387	0	0	0	47	0	**6,345**	90
Impairment losses/(reversals) recognised in the Revaluation Reserve	(127)	(154)	0	0	0	0	0	**(281)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	1,426	0	0	0	0	0	**1,426**	0
Derecognition – disposals	0	0	0	0	0	0	0	**0**	0
Derecognition – other	0	11	1,509	1,575	481	0	0	**3,576**	1,231
Other movements in depreciation and impairment	127	(1,272)	0	0	0	0	0	**(1,145)**	0
At 31 March 2021	**0**	**0**	**(10,563)**	**(207,409)**	**(638)**	**(1,006)**	**0**	**(219,616)**	**(7,579)**
NBV at 31 March 2021	**204,772**	**380,926**	**11,140**	**365,386**	**1,842**	**1,246**	**14,734**	**980,046**	**114,242**
NBV at 31 March 2020	**200,025**	**555,040**	**13,300**	**353,577**	**1,955**	**1,719**	**12,863**	**1,138,479**	**136,919**

The comparative movements in 2019/20 were as detailed below:

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2019	**196,767**	**526,312**	**19,883**	**525,492**	**3,578**	**2,115**	**7,525**	**1,281,672**	**137,179**
Additions	5,808	4,913	3,940	17,425	0	0	8,354	**40,440**	2,303
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10	48,862	0	0	0	(186)	0	**48,686**	4,801
Revaluation increases/(decreases)	(630)	(4,015)	0	0	0	177	0	**(4,468)**	433

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
recognised in the Surplus/Deficit on the Provision of Services									
Derecognition – disposals	(2,020)	(17,805)	(61)	0	0	0	0	**(19,886)**	0
Derecognition – other	(142)	(1,951)	(1,463)	0	(617)	(80)	0	**(4,253)**	(1,111)
Assets reclassified (to)/from Held for Sale	(500)	(947)	0	0	0	(595)	0	**(2,042)**	0
Other movements in cost or valuation	732	(329)	0	353	0	1,294	(3,016)	**(966)**	0
At 31 March 2020	200,025	555,040	22,299	543,270	2,961	2,725	12,863	**1,339,183**	143,605
Depreciation and Impairments									
At 1 April 2019	**(136)**	**(30,243)**	**(6,803)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,418)**	**(9,650)**
Depreciation charge for 2019/20	(3,908)	(16,303)	(3,164)	(16,923)	(174)	(51)	0	**(40,523)**	(6,416)
Depreciation written out to the Revaluation Reserve	252	43,808	0	0	0	18	0	**44,078**	8,617
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,780	1,122	0	0	0	45	0	**4,947**	228
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**	0
Derecognition – disposals	0	1,446	24	0	0	0	0	**1,470**	0
Derecognition – other	12	90	944	0	616	80	0	**1,742**	535
Other movements in depreciation and impairment	0	80	0	0	0	(80)	0	**0**	0
At 31 March 2020	**0**	**0**	**(8,999)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,704)**	**(6,686)**
NBV at 31 March 2020	**200,025**	**555,040**	**13,300**	**353,577**	**1,955**	**1,719**	**12,863**	**1,138,479**	**136,919**
NBV at 31 March 2019	**196,631**	**496,069**	**13,080**	**352,722**	**2,130**	**1,097**	**7,525**	**1,069,254**	**127,529**

Local Authority Maintained Schools

Included in the above balances for other land and buildings are all or a significant part of 5 primary schools for which plans are being finalised with the Diocese or for which instructions have been issued, but full ownership has not yet transferred to the Diocese. This detailed work is necessary because in many circumstances the schools are now physically different and it is necessary to ensure that the transfers relate purely to the school function and no other uses which may now be on site. There is a legal obligation to transfer ownership under Education legislation (Education Act 1946 or Schools Standards and Framework 1998).

Work commenced on the first transfers in 2008/09, and further schools were identified in 2011/12, mainly as a result of Primary School Amalgamations, which resulted in the change of the category of a number of schools. These schools will be removed from the Council's balance sheet on completion of the legal transfer. The total net book value for these schools still included as at the balance sheet date is £8.80m.

In addition there are a number of primary schools where a small part of the site is required to transfer from the Council to the Diocese, these are mainly as a result of extensions to schools which have been built across land still in Shropshire Council ownership (e.g. former playing field land). Work is ongoing to legally transfer these further sections and they are not included in the Council's balance sheet.

Academy Schools

In 2020/21 one further school became Academy status. This school was in part ownership of the Council, with the remaining part required to be transferred to the Diocese, following a school amalgamation. Where the School land and premises are in the freehold ownership of the Council, these are now leased by the Council to the Academy school on a 125 year peppercorn rent. Where they relate to Schools that should have transferred to the Diocese, this transfer is completed prior to Academy conversion. On this basis the schools are now listed in the Council's fixed asset register at nil value. The value written out of the Council balance sheet in 2020/21 for the school transferring was £3.85m.

At balance sheet date, Department of Education approval had been granted to two schools to convert to Academy status. One of which has converted to Academy School status in early 2021/22 financial year, this school was in part Council freehold ownership and a lease to the Academy school on a 125 year peppercorn rent has been completed as part of the transfer. The value of the school and associated facilities in the 2020/21 accounts is £3.85m. This is considered as a non-adjusting event after the reporting date.

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council Dwelling – componentised depreciation basis, using the Planned Programme Approach. The components are depreciated on a straightline basis over their useful life (10-0 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.

- Other Land and Buildings – average 10 to 60 years range.
- Vehicles, Plant, Furniture & Equipment – average 5 years.
- Infrastructure – 5 to 40 years.

Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment or to provide grant funding to other bodies for a capital purpose in 2020/21 and future years budgeted to cost £38.091m. Similar commitments at 31 March 2020 were £20.817m. The major commitments were:

- School Future Place Planning Programme - £9.281m.
- Highways & Transport schemes - £21.143m.
- Rural Broadband - £2.614m
- Business Park Regeneration - £4.145m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years but are subject to an annual desktop review. All valuations are undertaken by External Valuers for General Fund assets and Valuation Office Agency for HRA assets. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Vehicles, plant, furniture and equipment are held on historic cost basis.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, valuations are not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

The significant assumptions applied in estimating the fair values are:

- For all assets valued on a DRC or EUV basis an apportionment of each valuation has been made between land and buildings. The apportionment is provided only for the financial purposes, but this does not necessarily reflect how each asset would be treated in the open market.
- Valuation is based on the continuation of the existing uses for all of those properties that are owner occupied by Shropshire Council. Assumed that the properties are all occupied and/or operated in accordance with a valid planning permission. Valuers have not carried out any enquiries into highways or other statutory matters and have assumed there is nothing that would affect value.
- In accordance with instructions from Shropshire Council, Valuers have not undertaken any Building Surveys, test of services or site investigations and have prepared valuations on the basis that all properties (sites and buildings) are:

- Free of any matters (including deleterious materials or contamination) that could otherwise affect value;
- None of the properties are prone to flooding or other infrequent or regularly occurring natural events that could affect value;
- All necessary mains services are connected to the properties.

▪ All valuations undertaken are reported on a gross basis before deduction of purchaser's costs, including stamp duty at prevailing rates. No allowance has been made for any expenses of realisation, nor taxation (including VAT) which might arise in the event of a disposal, and the property has been considered free and clear of all mortgages or other charges which may be secured thereon.

▪ All of the assets are held on an unencumbered freehold basis with the Title being good and marketable, based on the Report on Title provided.

▪ Where relevant, Valuers have carried out informal enquiries only of statutory undertakers. This information has been obtained from verbal discussions or the internet, and is provided without liability on behalf of the statutory bodies.

▪ Opinion of the remaining lives of property assets has been provided. This may not necessarily be the useful life of the asset to Shropshire Council. Estimates of the properties remaining lives are based upon information provided together with Valuers understanding of any recent capital expenditure which has been incurred in replacing or refurbishing individual buildings and the use of the buildings (if any) at the date of valuation. All buildings are assumed to have a maximum life expectancy from new of 60 years.

▪ For those assets valued on a Market Value approach, the valuation will reflect the highest and best use of the asset which may include an alternative use or redevelopment of the property on the expectation that such a change or redevelopment can be reasonably assumed to be capable of achieving an appropriate planning permission.

Valuations of Non-Current Assets carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment. The valuations are carried out by the Council's internal valuation unit or commissioned from External Valuers. The basis of valuation is set out in the Statement of Accounting Policies. All values are stated on a net present value basis.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at Historical Cost	0	0	11,140	0	11,140
Valued at Fair Value as at: 31-Mar-21	204,772	380,926	0	1,246	586,944
Total Cost or Valuation	**204,772**	**380,926**	**11,140**	**1,246**	**598,084**

All assets were subject to a Full or Desktop Valuations as at 31/03/21 to ensure the carrying amount reflected Fair Value as at the balance sheet date.

In order to perform this exercise the other land and building category was split into the sub-categories with the relevant values detailed in the table below:

	2020/21 £000	2019/20 £000
Schools, Children's Services and other Education Facilities	71,369	124,392
Culture & Heritage Buildings	44,880	80,495
Leisure & Recreation	42,978	63,509
Highways & Car Parks	25,784	69,233
Social Care	35,071	43,236
Administrative Offices	16,977	21,994
Waste Management Site	96,573	112,102
Business / Commercial Sites (including Markets)	28,328	17,565
Housing Services (including Gypsy Sites)	9,678	11,563
Smallholdings	8,234	9,125
Other	1,054	1,826
Total	**380,926**	**555,040**

16. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2020/21 £000	2019/20 £000
Rental income & service charges from investment property	(1,815)	(1,316)
Direct operating expenses arising from investment property	315	350
Net (gain)/loss	**(1,500)**	**(966)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	Long term		Current	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Balance at start of the year	47,652	50,884	740	3,822
Additions:				
- Purchases	6,698	1,975	0	0
- Construction	1,308	0	0	0

	Long term		Current	
	2020/21	2019/20	2020/21	2019/20
	£000	£000	£000	£000
- Subsequent expenditure	116	24	0	0
Disposals	(116)	(25)	0	(3,822)
Net gains/(losses) from fair value adjustments	318	(2,456)	(490)	(1,135)
Transfers:				
- To/(from) Property, Plant and Equipment	3,285	(875)	0	0
- To/(from) Current/Long term	0	(1,875)	0	1,875
Balance at end of the year	**59,261**	**47,652**	**250**	**740**

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2021 are as follows:

2020/21 Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2020 £000
Residential (market rental) properties	0	3,883	0	3,883
Land	0	37,977	0	37,977
Commercial units	0	17,651	0	17,651
Total	**0**	**59,511**		**59,511**

2018/19 comparatives Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2019 £000
Residential (market rental) properties	0	5,621	0	5,621
Land	0	33,502	0	33,502
Commercial units	0	9,269	0	9,269
Total	**0**	**48,392**	**0**	**48,392**

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The market approach and the income approach have been used as the valuation techniques to measure the fair value of Investment Properties.

The fair value of properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The Income approach has been used mainly in relation to Investment Properties leased on a commercial basis. The income approach is calculated by means of the discounted cash flow method, where the expected cash flows from the properties are discounted to establish the present value of the net income stream. This approach is based on the authorities lease data and data on the local rental market.

Highest and Best Use of Investment Properties

In estimating the fair value of the authority’s Investment Properties, the valuations have been on the basis of the highest and best use of the asset. In a small number of instances this differs to their current use, mainly where sites would have a higher value if use for residential development, and it is expected planning permission for these sites would be granted based on existing planning policy. The authority is actively working to bring these sites forward for development, but this process can take a number of years.

Valuation Process for Investment Properties

The fair value of the authority’s investment properties are subject to revaluations in accordance with the authority’s policy on revaluing non-current assets, undertaken by the authority’s internal Estates Department for General Fund assets and Valuation Office Agency for HRA assets. As Investment Properties are valued on a market value basis and hence more volatile to changes in valuation, they are also subject to annual desktop review, to ensure the valuation reflects current value at the balance sheet date.

17. LONG TERM UNQUOTED EQUITY INVESTMENT

The Council held the following unquoted equity investments:

	2020/21 £000	2019/20 £000
Balance at start of the year	19,806	40,520
Purchases		
Shrewsbury Retail Unit Trusts	3,482	2,856
Disposals		
Shrewsbury Retail Unit Trusts	0	(64)
Revaluation		
Shrewsbury Retail Unit Trusts	(8,577)	(23,506)
Transfer of investment 31/01/2021	(14,711)	0
Balance at 31 March	**0**	**19,806**

All of the units in the trusts were previously owned by Standard Life Aberdeen and were sold to the Council on the 24th January 2018. The trust is a registered trust in Jersey and is regulated by the Jersey financial services authority and is also approved by the UK Government as a "Baker trust" for tax purposes.

In order to comply with the rules of the trust a percentage of the units were held by the Council directly and the remaining units were held by SSC NO.1 LTD, a wholly owned subsidiary of the Council. The units previously held by SSC No.1 LTD were surrendered to the Council on 30th January 2021.

On 31st January 2021 the shopping centres were transferred to be held directly by the Council. As a result of this the value that was previously accounted for as an unquoted equity investment is now accounted for within the Council's Balance Sheet under the specific headings i.e. debtors, creditors and property, plant and equipment.

The wholly owned subsidiary SSC NO.1 LTD is a company incorporated in England and Wales and was incorporated on the 19th January 2018. It has been consolidated in the group accounts. Its issued share capital at the 31st March 2020 was £1 and holds £0.020m in cash.

18. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2020/21 £000	2019/20 £000
Opening Capital Financing Requirement (including PFI & Finance Lease)	**480,053**	**474,213**
Capital investment		
Property, Plant and Equipment	44,340	40,440
Investment Properties	8,122	1,999
Long Term Investment	721	2,792
Intangible Assets	449	2,841
Revenue Expenditure Funded from Capital under Statute	14,424	18,561
Capital Loans	3,250	750
Sources of finance		
Capital receipts	(5,869)	(5,135)
Capital grants and other contributions	(56,543)	(40,756)
Direct Revenue Financing (Including MRA)	(3,081)	(8,662)
Minimum Revenue Provision	(8,312)	(6,990)
Closing Capital Financing Requirement (including PFI & Finance Lease)	**477,554**	**480,053**
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund	293,638	293,721
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA	85,130	84,805

	2020/21 £000	2019/20 £000
Closing Capital Financing Requirement – PFI & Finance Lease	98,786	101,527
	477,554	**480,053**
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	(4,925)	(2,441)
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	5,167	9,947
Assets acquired under finance leases		0
Assets acquired under PFI contracts	(2,741)	(1,666)
Increase/(decrease) in Capital Financing Requirement	**(2,499)**	**5,840**

19. PRIVATE FINANCE INITIATIVE SCHEMES

The Council has two Private Finance Initiative (PFI) schemes: The Quality in Community Services (QICS) PFI, signed on 21 May 2005, and the Waste Services PFI contract, signed on 29 September 2007.

a. The Quality in Community Services PFI Project

On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings:

- Three Resource Centres
- A Nursing Home
- A Joint Service Centre
- An Intermediate Care Hub

The contract was a Private Finance Initiative under the Capital Finance Regulations. The Council was awarded a PFI credit of £20.400m.

b. The Waste Services PFI Project

On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years.

The contract is a Private Finance Initiative (PFI) contract and is part funded by £40.800m of PFI credits which are paid as an annual PFI grant.

There are two separable elements to the contract: a collection and recycling element and a waste treatment services element.

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

The value of assets held and liabilities resulting from the QICS and Waste PFI contract at each balance sheet date since the commencement of the contract and an analysis of the movements are shown below:

	QICS PFI		Waste PFI	
	Year Ended 31/03/21 £000	Year Ended 31/03/20 £000	Year Ended 31/03/21 £000	Year Ended 31/03/20 £000
Non-Current Assets – Land & Buildings				
Balance Brought Forward	19,297	16,581	108,650	101,549
- Depreciation in Period	0	(353)	(16)	(3,909)
- Additions	0	0	0	57
- Revaluation/Impairment	(3,125)	3,069	(18,127)	11,011
- Derecognition	0	0	0	(57)
Balance Carried Forward	16,172	19,297	90,507	108,650
Non-Current Assets – Vehicles, Plant & Equipment				
Balance Brought Forward	0	0	8,971	9,398
- Depreciation in Period	0	0	(2,108)	(2,154)
- Additions	0	0	916	2,246
- Derecognition	0	0	(217)	(519)
Balance Carried Forward	0	0	7,563	8,971
Prepayments				
Balance Brought Forward	0	0	9,744	9,212
- Planned Capital Expenditure	0	0	369	531
Balance Carried Forward	0	0	10,113	9,744
Finance Lease Liability				
Balance Brought Forward	(11,737)	(12,046)	(99,534)	(100,360)
- Additions	0	0	0	0
- Early Lifecycle	0	0	(916)	(200)
- Repayment of Principal	339	309	2,949	1,026
Balance Carried Forward	(11,398)	(11,737)	(97,501)	(99,534)

Details of Payments due to be made under PFI contracts

Year	Service Charges * £000	Principal £000	Interest # £000	Total Unitary Charge Payment £000
Amounts Falling Due Within One Year	22,908	5,281	10,835	39,025
Amounts Falling Due Within 2 – 5 Years	102,256	18,581	41,325	162,161
Amounts Falling Due Within 6 – 10 Years	136,551	26,898	50,590	214,038
Amounts Falling Due Within 11 – 15 Years	170,776	34,134	35,588	240,498
Amounts Falling Due Within 16 – 20 Years	96,817	29,779	20,400	146,996
Amounts Falling Due Within 21 – 25 Years	0	0	0	0

* comprised of operating costs and lifecycle costs
# comprised of finance lease interest and contingent rental

20. LEASES

Authority as a Lessee

<u>Finance Leases</u>

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. The Council pays an annual unitary charge (in monthly instalments) to the contractor for the assets and services provided under each PFI contract. This annual unitary charge is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

The assets acquired under these leases are carried as Buildings and Vehicles, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2021 £000	31 March 2020 £000
Buildings	106,679	127,947
Vehicles, Plant and Equipment (PFI)	7,563	8,972
Total	**114,242**	**136,919**

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2021 £000	31 March 2020 £000
Finance lease liabilities (NPV of minimum lease payments)	114,673	117,045
Finance costs payable in future years	158,738	170,557
Minimum lease payments	**273,410**	**287,602**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000
Not later than one year	16,116	16,465	5,281	4,356
Later than one year and not later than five years	59,906	60,930	18,581	18,793
Later than five years	197,388	210,207	90,811	93,896
Total	**273,410**	**287,602**	**114,673**	**117,045**

The finance lease liabilities recognised on the balance sheet as "Deferred Liabilities" totals £108.899m. The analysis of the deferred liability is detailed below. Further details of the QICS and Waste PFI lease values are detailed in Note 19 Private Finance Initiative Schemes.

	QICS £000	Waste £000	Total £000
Lease liability (due within 1 year)	(371)	(4,910)	(5,281)
Lease liability (due after 1 year)	(11,027)	(92,591)	(103,618)
Total	**(11,398)**	**(97,501)**	**(108,899)**

Operating Leases

The Council has acquired vehicles and equipment by entering into operating leases, with typical lease lengths of three to seven years. The Council also has a number of land and buildings that are held under operating leases.

The minimum lease payments due for the following financial year under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2021 £000	31 March 2020 £000
Expiring not later than one year	80	329
Expiring later than one year and not later than five years	325	115
Expiring later than five years	402	445
Total	**807**	**889**

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2021 £000	31 March 2020 £000
Lease payments	874	1,149
Sub Lease receivable	0	0
Total	**874**	**1,149**

Authority as Lessor

Operating Leases
The Council leases out property under operating leases for a variety of purposes, including:

- For the provision of community services.
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- For income generation as Investment Properties.

The minimum lease payments due under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2021 £000	31 March 2020 £000
Expiring not later than one year	743	1,034
Expiring later than one year and not later than five years	962	501
Expiring later than five years	1,565	941
Total	**3,270**	**2,476**

21. FINANCIAL INSTRUMENTS

Categories of Financial Instruments
The following categories of financial instruments are carried in the Balance Sheet.

Financial Assets	Long term				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31-Mar-21 £000	31-Mar-20 £000	31-Mar-21 £000	31-Mar-20 £000	31-Mar-21 £000	31-Mar-20 £000	31-Mar-21 £000	31-Mar-20 £000	31-Mar-21 £000	31-Mar-20 £000
Fair value through profit or loss										
Long Term Equity Instruments	0	19,806	0	0	0	0	0	0	0	19,806
Amortised cost										
Investment	400	400	22,628	19,857	70,000	64,500	57,062	44,958	150,090	129,715
Cash and Cash Equivalents	0	0	0	0	78,289	92,560	0	0	78,289	92,560
Total financial assets	**400**	**20,206**	**22,628**	**19,857**	**148,289**	**157,060**	**57,062**	**44,958**	**228,379**	**242,081**
Non-financial assets	0	0	0	0	0	0	42,772	22,415	42,772	22,415
Total	**400**	**20,206**	**22,628**	**19,857**	**148,289**	**157,060**	**99,834**	**67,373**	**271,151**	**264,496**

Financial Liabilities	Long term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost										
Principal	(291,568)	(303,568)	(637)	(649)	(12,026)	(4,026)	(87,639)	(81,583)	(391,870)	(389,826)
Loans accrued interest	0	0	0	0	(1,867)	(1,987)	0	0	(1,867)	(1,987)
Bank Overdraft	0	0	0	0	0	0	(14,902)	(14,644)	(14,902)	(14,644)
PFI and Finance lease liabilities	(103,618)	(106,914)	0	0	0	0	(5,281)	(4,356)	(108,899)	(111,270)
Total Financial Liabilities	**(395,186)**	**(410,482)**	**(637)**	**(649)**	**(13,893)**	**(6,013)**	**(107,822)**	**(100,583)**	**(517,538)**	**(517,727)**
Non financial liabilities	0	0	0	0		0	(12,789)	(21,052)	(12,789)	(21,052)
Total	**(395,186)**	**(410,482)**	**(637)**	**(649)**	**(13,893)**	**(6,013)**	**(120,611)**	**(121,635)**	**(530,327)**	**(538,779)**

The debtors figure included in the balance sheet includes payments in advance from individuals and organisations and transactions relating to Council Tax and Business Rates which are not considered to be financial instruments, therefore these prepayments have been excluded above. Similarly the creditors figure also includes transactions relating to Council Tax and Business Rates and receipts in advance which are not a financial instrument, therefore these have been excluded above. A reconciliation of the Financial Instrument figures to the Balance Sheet is provided below:

	31-Mar-21	31-Mar-19
	£000	£000
Debtors:		
Financial assets carried at contract amounts as per Financial Instruments	57,062	44,958
Debtors that are not financial instruments	42,772	22,415
Total Debtors as per Balance Sheet	**99,834**	**67,373**
Creditors:		
Financial liabilities carried at contract amount as per Financial Instruments	(92,920)	(85,939)
Creditors that are not financial instruments	(12,789)	(21,052)
Total Creditors as per Balance Sheet	**(105,709)**	**(106,991)**

Soft Loans

Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT Ltd to be used to provide small business loans. As at the balance sheet date a total of £0.750m has been loaned to MRRT Ltd.

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is based on the PWLB rate at point at which the loan payment is made to MRRT Ltd plus 0.5% for the Council's transactional costs.

Other Soft Loans

Following a review in this area it has been identified that interest free loans with a nominal value of £2.092m are advanced to clients receiving residential/nursing care, who following assessment, are required to pay the full cost of their care. As all of the clients funds are tied up in the property they own, a legal charge is made against the property and when the property is sold the outstanding debts are cleared and the legal charge removed.

In addition, clients who are required to make adaptations to their homes to maintain their independence are also given interest free loans, the nominal value of these loans is £0.297m. A legal charge is again placed against the property and when the property is sold the amount of the loan is repaid and the legal charge removed.

The deferred charges loans are part of the Charging Residential Accommodation Guide (CRAG) assessment and the adaptation loans are part of Disabled Facilities Grant legislation, which means they are part of national agreements. These loans are not part of the Councils internal policies and therefore are not classified as soft loans.

Income, Expense, Gains and Losses

	2020/21		2019/20	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net gains/losses on:				
Financial assets measured at fair value through profit or loss	(8,577)	0	(23,506)	0
Financial assets measured at amortised cost	0	0	0	0
Investments in equity instruments designated at fair value through other comprehensive income	0	0	0	0
Financial assets measured at fair value through profit or loss	0	0	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Financial liabilities measured at amortised cost	0	0	0	0
Total net gains/losses	**(8,577)**	**0**	**(23,506)**	**0**
Interest revenue:				
Financial assets measured at amortised cost	(1,450)	0	(2,129)	0
Other financial assets measured at fair value through other comprehensive income			0	0

	2020/21		2019/20	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Total interest revenue	**(1,450)**	**0**	**(2,129)**	**0**
Interest expense				
Interest Expense	26,179	0	25,916	0

The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carried at fair value, all other financial liabilities and financial assets held by the Council are carried in the Balance Sheets at amortised cost. The fair values calculated are as follows.

Financial Liabilities	31 March 2021 Carrying amount £000	Fair value £000	31 March 2020 Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost				
- Loans/Borrowings	303,568	421,941	307,568	405,490
- PFI and finance lease liabilities	108,899	203,186	111,271	224,610

The fair value of borrowings is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2021 Carrying amount £000	Fair value £000	31 March 2020 Carrying amount £000	Fair value £000
Financial assets held at amortised cost				
Loans and receivables:				
Cash	32,800	32,800	35,500	35,514
Fixed Term Deposits	115,000	115,173	104,500	104,979
Money Market Funds	0	0	17,060	17,071
Short term investments	0	0	0	0
Long term debtors	22,628	22,628	19,857	19,857
Long term investments	400	400	20,206	20,206

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2021) attributable to the commitment to receive interest above current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

Recurring fair value measurements using:	31-Mar-21 Quoted prices in active markets for identical assets(Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Financial liabilities				
Financial liabilities held at amortised cost:				
Loans/borrowings	0	421,941	0	421,941
PFI and finance lease liabilities	0	203,186	0	203,186
Total	**0**	**625,127**	**0**	**625,127**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	750	750
Other loans and receivables	0	147,973	0	147,973
Total	**0**	**147,973**	**750**	**148,723**

Recurring fair value measurements using:	31-Mar-20 Comparative Year Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Financial liabilities				
Financial liabilities held at amortised cost:				
Loans/borrowings	0	405,490	0	405,490
PFI and finance lease liabilities	0	224,610	0	224,610
Total	**0**	**630,100**	**0**	**630,100**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	750	750
Other loans and receivables	0	157,564	0	157,564
Total	**0**	**157,564**	**750**	**158,314**

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

Financial Assets	Financial Liabilities
No early repayment or impairment is recognised	No early repayment is recognised
Estimated ranges of interest rates at 31 March 2021 of -0.01% to 0.15% for loans receivable, based on new lending rates for equivalent loans at that date	Estimated ranges of interest rates at 31 March 2021 of 0.79% to 2.19% for loans payable, based on new lending rates for equivalent loans at that date
The fair value of trade and other receivables is taken to be the invoiced or billed amount	

22. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses;
- By approving annually in advance prudential and treasury indicators for the following three years;
- By approving an investment strategy for the forthcoming year.

To avoid the Council suffering loss as a result of its treasury management activities a number of risk management procedures have been put in place.

These procedures are based on the concept that firstly security of principal is paramount, secondly that there is a need to maintain liquidity and finally earning a rate of return commensurate with the first two concepts.

Credit Risk Exposure

Credit and counterparty risk is the failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness.

As a holder of public funds, Shropshire Council regards it a prime objective of its treasury management activities to be the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Council ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Council's creditworthiness policy which is approved as part of the Annual Investment Strategy.

The Council's lending list is reviewed continuously in conjunction with its treasury advisor and formally updated monthly. Additions to, and deletions from, the list are approved by the Section 151 Officer.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rating the maximum amount is currently limited to £20.000m.

The analysis below summarises the Council's potential maximum exposure to credit risk, based on the experience of default, adjusted to reflect current market conditions.

	Amount deposited at 31 March 2021	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2021	Estimated maximum exposure to default and uncollectability at 31 March 2021	Estimated maximum exposure at 31 March 2021
	£000	%	%	%	£000
	A	B	C	(AxC)	
Loans and receivables held with counterparties having a default rating of:					
AAA	0	0.00	0.00	0.00	0
AA	13,900	0.02	0.00	0.00	0
A	60,900	0.05	0.09	0.00	0
BBB	0	0.14	0.00	0.00	0
Other Local Authorities	73,000	0.00	0.00	0.00	0
Debtors (Customers)	30,796	Local Experience	Local Experience	Local Experience	Local Experience

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council generally allows its customers 30 days credit. Of the £30.796m outstanding from customers £19.847m is past its due date for payment. This amount past due date is analysed by age as follows:

Age of Debt	2020/21 £000	2019/20 £000
Less than 3 months overdue	4,997	4,584
3 to 6 months overdue	4,278	2,262
6 months to 1 year overdue	2,084	2,679
More than 1 year overdue	8,487	7,576
	19,847	17,101

Liquidity Risk Exposure

Liquidity risk is the risk that cash is not available when required. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council therefore has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected circumstances.

As the Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board and money markets for access to longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. The Council's strategy therefore is to ensure that no more than 15% of loans mature in any one financial year.

In addition, all of the Council's short term liquidity requirements can be satisfied through short term borrowing and bank overdraft facilities.

The maturity analysis of financial liabilities is as follows:

Age of Debt	2020/21 £000	2019/20 £000
Less than 1 year	12,000	4,000
Between 1 and 2 years	0	12,000
Between 2 and 5 years	6,600	6,600
Between 5 and 10 years	28,487	28,487
More than ten years	256,481	256,481
	303,568	**307,568**

Interest Rate Risk

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council minimises this risk by seeking expert advice on forecasts on interest rates from its Treasury Management consultants, and agreeing with them the strategy for the forthcoming year for the investment and debt portfolios. Movement of actual interest rates against these expectations is monitored continuously with advice from our treasury advisor.

The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. Interest rate exposure limits and other prudential limits are set through this Strategy. The limit for variable rate debt is 50% of the total debt portfolio however the Council works to a more prudent level and maximises its exposure to 25%. As borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

As at 31 March 2021 the Council's total outstanding debt (excluding accrued interest) amounted to £303.594m of which none of these loans were at stepped interest rates. Out of this balance £254.368m relates to fixed rate Public Works Loan Board (PWLB) loans, £32.200m relates to Lenders Option Borrower Option (LOBO) market loans, £17.000m relates to Market Loans and £0.026m relates to temporary loans for voluntary groups. As the LOBO loans have a call option where the lender can increase the rate of the loan at predetermined dates these loans are classified as variable rate loans. If the lender increases the interest rate on the LOBO loans at the predetermined date then the Council has the option to repay the loan in full thereby offering the potential for the Council to avoid this increase in interest payable.

The majority of the Council's investments are fixed rate deposits however, investments in Call Accounts are classified as variable rate investments. As at the end of March 2021, £17.800m was held in a Call Account.

Price Risk
The Council, excluding the pension fund, does not invest in equity shares or bonds, therefore is not exposed to losses arising from movements in share/bond prices.

Foreign Exchange Risk
The Council has no financial assets or liabilities denominated in foreign currencies therefore the exposure to loss arising from movements in exchange rates is zero.

23. DEBTORS

These are sums of money due to the Council but unpaid at 31 March 2021.

	2020/21 £000	2019/20 £000
Debtors:		
Central Government Bodies	35,214	12,001
Other Local Authorities	3,426	4,455
NHS Bodies	11,818	5,060
Public Corporations and Trading Funds	0	0
Other Entities and Individuals	28,929	29,745
Prepayments	20,447	16,112
	99,834	**67,373**

24. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	2020/21 £000	2019/20 £000
Less than 1 year	5,365	4,584
1 – 2 years	2,996	2,204
2 – 3 years	1,880	1,333
More than 3 years	5,901	5,406
	16,142	**13,527**

25. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2021 £000	31 March 2020 £000
Bank current accounts	18,294	37,585
Short term deposits with building societies	60,144	55,422
Total Cash and Cash Equivalents	**78,438**	**93,007**
Bank Overdraft	(14,902)	(14,644)
Cash Overdrawn	**(14,902)**	**(14,644)**

26. CREDITORS

These are amounts owed by the Council for work done, goods received or services rendered which had not been paid by 31 March 2021.

	2020/21 £000	2019/20 £000
Creditors:		
Central Government Bodies	(16,752)	(12,551)
Other Local Authorities	(1,753)	(1,348)
NHS Bodies	(125)	(358)
Public Corporations and Trading Funds	0	0
Other Entities and Individuals	(76,892)	(83,727)
Receipts In Advance	(10,187)	(9,007)
	(105,709)	**(106,991)**

27. PROVISIONS

The value of provisions held as at 31 March 2021 are as follows:

	Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31 March 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Balance at 31 March 2021 £000
Short Term Provisions							
Accumulated Absences Account	1,887	(1,887)	2,328	2,328	(2,328)	3,026	3,026
Environmental Maintenance Provision	117	(117)	0	0	0	60	60
Rent Top Up Provision	163	(166)	38	35	(35)	0	0
Highways & Transport Provision	0	0	834	834	(429)	0	405

	Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31 March 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Balance at 31 March 2021 £000
Cultural Provision	0	0	191	191	0	0	191
Termination Benefits	0	0	188	188	(188)	230	230
Total Short Term Provisions	**2,167**	**(2,170)**	**3,579**	**3,576**	**(2,980)**	**3,316**	**3,912**
Long Term Provisions							
AWM	224	0	0	224	(224)	0	0
S106	73	0	0	73	0	0	73
Rent Top Up Provision	2	(2)	0	0	0	0	0
Liability Insurance	4,002	(23)	234	4,213	(1,040)	604	3,777
NDR Appeals	5,777	(981)	1,594	6,390	(3,173)	1,402	4,619
Tenancy Deposit Clawbacks	166	(13)	26	179	(23)	48	204
Total Long Term Provisions	**10,244**	**(1,019)**	**1,854**	**11,079**	**(4,460)**	**2,054**	**8,673**
Total Provisions	**12,411**	**(3,189)**	**5,433**	**14,655**	**(7,440)**	**5,370**	**12,585**

28. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

	31 March 2021 £000	31 March 2020 £000
Usable Capital Receipts Reserve	0	0
Major Repairs Reserve	5,950	4,492
Earmarked Reserves	93,659	67,993
Capital Grants Unapplied Account	45,087	41,985
HRA Balance	11,341	10,141
General Fund Balance	14,090	13,510
Total Usable Reserves	**170,127**	**138,121**

29. UNUSABLE RESERVES

	31 March 2021 £000	31 March 2020 £000
Revaluation Reserve	98,683	245,600
Capital Adjustment Account	494,837	513,890
Financial Instruments Adjustment Account	(3,682)	(3,998)
Deferred Capital Receipts Reserve	581	2,149
Pensions Reserve	(537,647)	(495,700)
Collection Fund Adjustment Account	(20,227)	3,503
Accumulated Absences Account	(3,026)	(2,328)
Dedicated Schools Grant Adjustment Account	(659)	0
Total Unusable Reserves	**28,860**	**263,116**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2020/21 £000	2019/20 £000
Balance at 1 April	**245,600**	**164,812**
Upward revaluation of assets	13,108	97,077
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(149,576)	(4,312)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(136,468)**	**92,765**
Difference between fair value depreciation and historical depreciation	(8,067)	(7,004)
Accumulated gains on assets sold or scrapped	(2,382)	(4,973)
Other transfers to the Capital Adjustment Account	0	0
Amount written off to the Capital Adjustment Account	**(10,449)**	**(11,977)**
Balance at 31 March	**98,683**	**245,600**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the authority.

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2020/21 £000	2019/20 £000
Balance at 1 April	**513,890**	**553,330**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	(42,534)	(40,593)
- Revaluation losses on Property, Plant and Equipment	(25,847)	138
- Revaluation loss on Long Term Investment	(8,577)	(23,506)
- Amortisation of intangible assets	(1,437)	(1,362)
- Revenue expenditure funded from capital under statute	(14,424)	(18,561)
- Amounts of non current assets written off on disposal or sale as part of the gain/loss of disposal to the Comprehensive Income and Expenditure Statement	(10,316)	(25,485)
	(103,135)	**(109,369)**
Adjusting amounts written out of the Revaluation Reserve	**10,449**	**11,977**
Net written out amount of the cost of non current assets consumed in the year	**(92,686)**	**(97,392)**
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	5,869	5,135
- Use of the Major Repairs Reserve to finance new capital expenditure	2,638	3,700
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	50,966	34,115
- Application of grants to capital financing from the Capital Grants Unapplied Account	5,577	6,641
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	8,312	6,990
- Capital expenditure charged against the General Fund and HRA balances	443	4,962
	73,805	**61,543**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**(172)**	**(3,591)**
Balance at 31 March	**494,837**	**513,890**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2020/21 £000	2019/20 £000
Balance at 1 April	**(3,998)**	**(4,317)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements.	315	315
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	1	4
Balance at 31 March	**(3,682)**	**(3,998)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2020/21 £000	2019/20 £000
Balance at 1 April	**2,149**	**661**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	1,529
Transfer to the Capital Receipts Reserve upon receipt of cash	(1,568)	(41)
Balance at 31 March	**581**	**2,149**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2020/21 £000	2019/20 £000
Balance at 1 April	**(495,700)**	**(497,935)**
Remeasurements of the net defined benefit liability/(asset)	(22,416)	28,057
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(40,957)	(49,202)
Employer's pension contributions and direct payments to pensioners payable in the year	21,426	23,380
Balance at 31 March	**(537,647)**	**(495,700)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2020/21 £000	2019/20 £000
Balance at 1 April	**3,503**	**3,091**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(23,730)	412
Balance at 31 March	**(20,227)**	**3,503**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2020/21 £000	2019/20 £000
Balance at 1 April	**(2,328)**	**(1,887)**
Settlement or cancellation of accrual made at the end of the preceding year	2,328	1,887
Amounts accrued at the end of the current year	(3,026)	(2,328)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(698)**	**(441)**
Balance at 31 March	**(3,026)**	**(2,328)**

Dedicated Schools Grant Adjustment Account

On the 6 November 2020, the secretary of State for Ministry of Housing, Communities and Local Government laid before Parliament a statutory instrument to amend the Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations). The provisions came into effect from 29 November 2020.

The instrument amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The new accounting practice has the effect of separating schools budget deficits from the local authorities' general fund for a period of three financial years.

	2020/21 £000	2019/20 £000
Balance at 1 April	**0**	**0**
Dedicated Schools Grant Adjustment Account Transfer of Opening Balance	(2,247)	0
Restated Opening Balance	**(2,247)**	**0**
In year Dedicated Schools Grant over/(under)spend	**1,588**	**0**
Balance at 31 March	**(659)**	**0**

30. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2020/21 £000	2019/20 £000
Interest received	(1,641)	(2,249)
Interest paid	26,299	25,940

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements.

	2020/21 £000	2019/20 £000
Depreciation	42,534	40,593
Impairment and downward valuations	25,847	(138)
Amortisation	1,437	1,362
Impairment losses on Loans & advances debited to surplus or deficit on the provision of services in year	443	0
Impairment losses on Investments debited to surplus or deficit on the provision of services in year	8,577	23,506
Increase/Decrease in Interest Creditors	(120)	(24)
Increase/Decrease in Creditors	30,820	34,353

	2020/21 £000	2019/20 £000
Increase/Decrease in Interest and Dividend Debtors	191	121
Increase/Decrease in Debtors	(10,508)	(10,886)
Increase/Decrease in Inventories	(125)	130
Pension Liability	13,767	33,136
Contributions to/(from) Provisions	(2,071)	2,244
Carrying amount of non-current assets sold	9,088	24,819
Movement in Investment Property Values	172	3,591
	120,052	**152,807**

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

	2020/21 £000	2019/20 £000
Carrying amount of short and long term investment sold	(5,801)	523
Capital Grants credited to surplus or deficit on the provision of services	(59,644)	(48,343)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,908)	(7,293)
Non cash adjustments	**(70,353)**	**(55,113)**

31. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2020/21 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	53,124	48,698
Purchase of short term and long term investments	3,482	2,856
Other payments for investing activities	3,884	1,542
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,525)	(50)
Other receipts from investing activities*	(68,038)	(58,436)
Net cash flows from investing activities	**(9,073)**	**(5,390)**

* This includes capital grants received in year.

32. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2020/21 £000	2019/20 £000
Cash receipts of short and long-term borrowing	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	3,288	1,334
Repayments of short and long term borrowing	4,012	8,852
Other payments for financing activities*	22,934	(1,466)
Net cash flows from financing activities	**30,234**	**8,720**

* Represents change in value of NNDR debtor/creditor

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2020/21 1 April	Financing cash flows	Non-cash changes Acquisition	Other non-cash changes	2020/21 31 March
	£000	£000	£000	£000	£000
Long-term borrowings	303,568	0	0	(12,000)	291,568
Short-term borrowings	6,013	(4,120)	0	12,000	13,893
- On balance sheet PFI liabilities	111,271	(3,289)	0	916	108,898
Total liabilities from financing activities	**420,852**	**(7,409)**	**0**	**916**	**414,359**

	2019/20 1 April	Financing cash flows	Non-cash changes Acquisition	Other non-cash changes	2019/20 31 March
	£000	£000	£000	£000	£000
Long-term borrowings	307,568	0	0	(4,000)	303,568
Short-term borrowings	10,873	(8,860)	0	4,000	6,013
- On balance sheet PFI liabilities	112,406	(1,334)	0	200	111,271
Total liabilities from financing activities	**430,847**	**(10,195)**	**0**	**200**	**420,852**

34. TRADING OPERATIONS

The Council has a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units with a turnover of greater than £5m in 2020/21 are as follows:

		2020/21		2019/20	
		£000	£000	£000	£000
Shire Services operates as a trading organisation within the Council, delivering catering and cleaning services. Shire Services provides catering services to schools in Shropshire, Worcestershire, Herefordshire, Telford and North Wales, as well as to a range of non-school sites in Shropshire. Cleaning services are provided to schools and other Council premises in Shropshire, including the Area Headquarters.	Turnover	(12,990)		(16,171)	
	Expenditure	14,373		17,018	
	(Surplus)/ Deficit		**1,383**		**847**
The consolidated results of the other Council's trading units are:	Turnover	(41,373)		(38,284)	
	Expenditure	47,852		38,554	
	(Surplus)/ Deficit		**6,479**		**270**
Net Surplus on Trading Activities			**7,862**		**1,117**

35. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the Council during the year.

	2020/21 £000	2019/20 £000
Basic Allowances	849	848
Special Responsibility Allowances	271	278
Expenses	4	43
Total	**1,124**	**1,169**

36. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

Post Holder Information (Post Title & Name)		Salary	Expense Allowances	Total excl. pension contributions	Employers Pension contributions	Total incl. pension contributions
Chief Executive – Clive Wright (left post on 15th April 2020)^	2020/21	£6,375	£0	£6,375	£1,109	£7,484
	2019/20	£153,000	£0	£153,000	£22,644	£175,644
Acting Interim Chief Executive (25th February 2020 to 30th September 2020)	2020/21	£10,305	£0	£10,305	£1,845	£12,150
	2019/20	£1,993	£0	£1,993	£295	£2,288
Acting Interim Chief Executive (25th February 2020 to 30th September 2020)	2020/21	£10,305	£0	£10,305	£1,845	£12,150
	2019/20	£1,993	£0	£1,993	£295	£2,288
Chief Executive (started in post on 1st October 2020)	2020/21	£78,604	£0	£78,604	£13,677	£92,281
Executive Director of Adult Services (left post on 30th September 2020)	2020/21	£68,123	£0	£68,123	£11,853	£79,976
	2019/20	£132,600	£0	£132,600	£19,625	£152,225
Executive Director of Adult Services (started in post on 1st October 2020)	2020/21	£62,883	£0	£62,883	£10,942	£73,825
Executive Director of Children's Services	2020/21	£136,247	£0	£136,247	£23,707	£159,954
	2019/20	£131,706	£0	£131,706	£19,492	£151,198
Executive Director of Place	2020/21	£136,247	£0	£136,247	£0	£136,247
	2019/20	£132,600	£0	£132,600	£0	£132,600
Interim Executive Director of Resources (started in post on 1st December 2020)°	2020/21	£41,922	£0	£41,922	£6,699	£48,621

Post Holder Information (Post Title & Name)		Salary	Expense Allowances	Total excl. pension contributions	Employers Pension contributions	Total incl. pension contributions
Director of Legal and Democratic Services, Monitoring Officer	2020/21	£115,286	£0	£115,286	£20,060	£135,346
	2019/20	£112,200	£0	£112,200	£16,606	£128,806
Director of Finance, Governance & Assurance, S151 Officer (left post on 30th November 2020)°	2020/21	£76,857	£0	£76,857	£13,361	£90,218
	2019/20	£112,200	£0	£112,200	£16,606	£128,806
Director of Workforce & Transformation (left post on 31st October 2020)*	2020/21	£72,557	£0	£72,557	£11,701	£84,258
	2019/20	£112,200	£0	£112,200	£16,606	£128,806

° An element of the total remuneration paid to the Director of Finance, Governance & Assurance/Interim Executive Director of Resources is recharged to Shropshire County Pension Fund (£16,530), Shropshire & Wrekin Fire Authority (£7,220), the Marches LEP (£12,842), West Mercia Energy (£14,670) and West Mercia Supplies (£2,282) to reflect the various treasurer roles undertaken within those organisations.

^ The Chief Executive also received a payment of £124,036 during 2020/21 in accordance with the Council's policy

* The Director of Workforce & Transformation also received a payment of £121,687 during 2020/21 in accordance with the Council's policy

The numbers of officers whose remuneration exceeded £50,000 is analysed into bands of £5,000 as follows. The senior officers included in Note 36 above are not included within this analysis. The remuneration disclosed below includes salary costs and expense allowances:

Salaried Remuneration Band £	2020/21 No. of Employees	2019/20 No. of Employees
50,000 – 54,999	75	66
55,000 – 59,999	39	35
60,000 – 64,999	27	16
65,000 – 69,999	18	30
70,000 – 74,999	23	9
75,000 – 79,999	8	2
80,000 – 84,999	2	13
85,000 – 89,999	16	3
90,000 – 94,999	3	1
95,000 – 99,999	1	3
100,000 – 104,999	1	0
105,000 and above	1	1

The numbers of exit packages with total cost per band and total cost of the exit packages, including redundancy payments, pension strain and unpaid leave are set out in the table below. The figures disclosed include exit packages for schools and the Council.

	No. of compulsory redundancies		No. of other departures agreed		Total no of exit packages by cost band		Total cost of exit packages in each band £000	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
£0 - £40,000	27	40	18	72	45	112	367	1,012
£40,001 - £150,000	2	9	2	12	4	21	407	1,548
£150,001 +	0	0	2	2	2	2	980	384
	29	**49**	**22**	**86**	**51**	**135**	**1,754**	**2,944**

37. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2020/21 £000	2019/20 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	167	127
Fees payable to external audit for the certification of grant claims and returns	14	13
Fees payable in respect of other services provided by the external audit during the year	8	8
Total	**189**	**148**

38. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget. The Schools' Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG for 2020/21 are as follows:

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2020/21 before academy recoupment	44,812	171,271	216,083
Academy and high needs figure recouped for 2020/21	(5,135)	(113,792)	(118,927)
Central provision with schools and de-delegated budgets	3,137	(3,137)	0
Early years maintained settings included in ISB on S251	(966)	966	0
Re-allocation of high needs to ISB	842	(842)	0
Total DSG after academy recoupment for 2020/21	**42,690**	**54,466**	**97,156**

	Central Expenditure £000	ISB £000	Total £000
Brought forward from 2019/20	(2,247)	0	(2,247)
Agreed initial budget distribution in 2020/21	**40,443**	**54,466**	**94,909**
In year adjustments	537	0	537
Final budget distribution in 2020/21	**40,980**	**54,466**	**95,446**
Actual central expenditure	(40,094)	0	(40,094)
Actual ISB deployed to schools	0	(55,046)	(55,046)
Early years maintained settings included in ISB on S251	0	(966)	(966)
Final expenditure in 2020/21	**(40,094)**	**(56,012)**	**(96,105)**
Carry forward to 2021/22	**886**	**(1,546)**	**(659)**

The deficit arising on the DSG has been transferred to the Dedicated Schools Grant Adjustment as detailed in Note 29.

39. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2020/21:

	2020/21 £000	2019/20 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(6,219)	(6,119)
Local Services Support Grant	(266)	(243)
New Homes Bonus	(8,367)	(7,754)
Business Rates Relief Grant	(30,694)	(8,090)
Rural Service Support Grant	(6,614)	(6,614)
Brexit Grant	0	(210)
Covid-19 LA Support Grant	(13,438)	(8,972)
Other Grants	(961)	0
Capital Grants & contributions	(48,766)	(37,925)
Total	**(115,325)**	**(75,927)**
Credited to Services		
DWP Housing Benefit	(48,931)	(51,473)
DWP Housing Benefit Admin Subsidy	(680)	(646)
MHCLG Waste PFI	(3,186)	(3,186)
MHCLG Social Services PFI	(1,523)	(1,523)
DFE Dedicated Schools Grant	(97,693)	(98,435)

	2020/21 £000	2019/20 £000
DFE/DE Sixth Forms funding	0	(799)
DFE Pupil Premium Grant	(3,588)	(3,758)
DFE UFSM	(1,797)	(1,847)
DFE PE & Sports	(1,054)	(1,456)
Teachers Pay Grant	(779)	(768)
Teachers Pension employer contribution grant	(2,437)	(1,545)
DfT Bus Services Operators Grant	(512)	(512)
Winter Pressure	0	(1,394)
Strengthening Families	(821)	(1,566)
Resettlement	(137)	(422)
HO Asylum Seekers	(785)	(574)
DoH Public Health Grant	(12,314)	(11,683)
MHCLG/DoH Adult Social Care New Burdens	(7,883)	(2,381)
Independent Living Fund Grant	(1,512)	(1,512)
Improved Better Care Fund	(11,515)	(10,121)
DWP Discretionary Housing Payment Grant	(545)	(468)
School monitoring and brokering grant	(337)	(582)
Flexible Homelessness grant	(359)	(456)
Apprenticeship Levy	(563)	(324)
Covid-19 Loss of Sales, Fees and Charges Income Compensation Grant	(3,635)	0
Covid-19 Job Retention Scheme	(1,282)	0
Covid-19 Business Support Grants	(4,555)	0
Covid-19 LRSG/ARG	(7,829)	0
Covid-19 Adult Social Care Infection Control Fund	(1,702)	0
Covid-19 Winter Grant Scheme	(783)	0
Covid-19 Workforce Capacity Fund	(697)	0
Covid-19 Contain Outbreak Management Fund	(611)	0
Covid-19 Track & Trace Service	(766)	0
Covid-19 Hardship Fund	(1,540)	0
Covid-19 Other Grants	(3,317)	0
Other Grants	(4,456)	(4,570)
Capital Grants & contributions	(10,878)	(10,417)
Total	**(241,002)**	**(212,419)**

The Council received a number of grants from government in relation to the covid-19 pandemic where the Council was required to distribute the grants based on criteria determined by Government. As the Council is acting as an agent in relation to these grants the transactions have been excluded from the income and expenditure in the CIES and a debtor or creditor included on the balance sheet for any outstanding balances. Details of these grants are included in the below table:

	Grant Income £000	Grant Expenditure £000	Grant Balance £000
BEIS Business Support Grant	(81,594)	81,427	(166)
Covid-19 LRSG/CSP/CBL Grant	(48,695)	37,108	(11,586)
Covid-19 Rapid Testing Fund	(896)	896	0
Covid-19 Adult Social Care Infection Control Fund	(6,889)	6,889	0
Covid-19 Test and Trace Support Payments	(613)	188	(425)
Total	**(138,685)**	**126,508**	**(12,177)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31-Mar-21 £000	31-Mar-20 £000
Current Liabilities		
Grants Receipts in Advance (Capital Grants)		
Department of Transport	(5,598)	(720)
Department for Education	(1,374)	(201)
Environment Agency	(349)	(413)
Homes England	(90)	(90)
Highways England	(15)	0
Department for Digital, Culture, Media and Sport	0	(172)
Other Grants & Contributions	(4,347)	(3,297)
Total	**(11,773)**	**(4,893)**
Grants Receipts in Advance (Revenue Grants)		
MHCLG Tackling Troubled Families	(12)	(12)
Standards Fund	(844)	(416)
CBSSG Restart	(992)	0
Covid-19 Track & Trace Service	(361)	0
Covid-19 Contain Outbreak Management Fund	(6,844)	0
Covid-19 LRSG/ARG	(3,814)	0
Covid-19 National Leisure Recovery Fund	(465)	0
Rough Sleepers Initiative	(170)	(167)
Better Deal for Bus Users	(319)	0
MHCLG Social Services PFI	(210)	(210)
MHCLG Business Rates Retention	(20,508)	(8,589)
Asylum Seekers	(193)	(394)
Adoption Support Fund	(381)	(241)
Other Grants	(838)	(418)
Total	**(35,951)**	**(10,446)**
TOTAL	**(47,724)**	**(15,339)**

40. COMMUNITIES INFRASTRUCTURE LEVY

The Communities Infrastructure Levy (CIL) is a planning charge that is applied to most types of new development within the county. A balance of CIL is being held within Grants Receipts in Advance – Capital and Creditors.

	2020/21		2019/20	
	£000	£000	£000	£000
Opening Balance April		**(28,426)**		**(23,100)**
Receipts received	(7,898)		(8,590)	
Expenditure incurred	5,136		3,264	
Closing Balance		**(31,188)**		**(28,426)**
Closing Balance allocated to:				
Neighbourhood Fund	1,515			1,571
Strategic Fund	3,546			2,920
Local Area Fund	26,127			23,935
Total		**31,188**		**28,426**

41. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme is technically a defined benefits scheme. However the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21, the Council paid £6.605m to Teachers' Pensions in respect of teachers' retirement benefits. The contribution rate for April 2020 to March 2021 was 23.68%. The amount paid for 2019/20 were £6.435m and the contribution rate for April 2019 to August 2019 was 16.48% and 23.68% for September 2019 to March 2020. There were no contributions remaining payable at the year end.

Public Health employees previously employed by the NHS are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme.

In 2020/21, the Council paid £0.026m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.4% of pensionable pay. The figures for 2019/20 were £0.046m and 14.4%.

42. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered by Shropshire Council is a funded defined benefit scheme. This means that the Council and employees pay contributions into a fund, which is invested in accordance with the Local Government Pension Scheme Regulations.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme	
	2020/21	2019/20
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- current service cost	(29,197)	(30,763)
- past service gain/(cost)	(1,194)	(9,184)
- curtailment gain/(cost)	701	2,310
	(29,690)	**(37,637)**
Financing and Investment Income and Expenditure:		
- net interest expense	(11,267)	(11,565)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(40,957)**	**(49,202)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- return on plan assets	147,895	(52,865)
- experience (gain)/loss	29,988	(7,377)
- actuarial gains and losses arising on changes in demographic assumptions	0	62,900
- actuarial gains and losses arising on changes in financial assumptions	(200,299)	25,399

	Local Government Pension Scheme 2020/21 £000	Local Government Pension Scheme 2019/20 £000
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(63,373)**	**(21,145)**
Movement in Reserves Statement - reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	40,957	49,202
Actual amount charged against the Fund Balances for pensions in the year: - employers' contributions payable to scheme	(21,426)	(23,380)

Assets and Liabilities Recognised in the Balance Sheet

	2020/21 £000	2019/20 £000
Present value of the defined benefit obligation	(1,531,034)	(1,341,540)
Fair value of plan assets	999,151	845,840
Net liability arising from defined benefit obligation	**(531,883)**	**(495,700)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets

	Local Government Pension Scheme 2020/21 £000	Local Government Pension Scheme 2019/20 £000
Opening fair value of scheme assets at 1 April	845,840	891,191
Interest income	20,482	21,343
Remeasurement gain/(loss):		
Return on plan assets excluding the amount included in the net interest expense	147,895	(52,865)
Contributions from employer	21,426	23,380
Contributions from employees into the scheme	5,850	5,602
Benefits paid	(41,247)	(39,382)
Other	(1,095)	(3,429)
Closing fair value of scheme assets at 31 March	**999,151**	**845,840**

Reconciliation of Present Value of the Scheme Liabilities

	Local Government Pension Scheme 2020/21 £000	Local Government Pension Scheme 2019/20 £000
Opening balance at 1 April	(1,341,540)	(1,381,812)
Current Service Cost	(28,644)	(30,229)
Interest Cost	(31,749)	(32,908)
Contributions from scheme participants	(5,850)	(5,602)
Remeasurement gain/(loss):		
Experience gains/losses	29,988	(7,377)

Actuarial gains/losses arising from changes in demographic assumptions	0	62,900
Actuarial gains/losses arising from changes in financial assumptions	(200,299)	25,399
Other	0	0
Past service costs	(1,194)	(9,184)
Losses/(gains) on curtailment	(364)	(1,406)
Benefits paid	41,247	39,382
Liabilities extinguished on settlements	1,607	6,611
Lump Sum Deficit Repayment	5,764	(7,314)
Closing balance at 31 March	**(1,531,034)**	**(1,341,540)**

Local Government Pension Scheme Assets

Assets in the Shropshire County Pension Fund consist of the following categories:

	2020/21 £000	2019/20 £000
Cash and cash equivalents	**2,936**	**10,996**
Equity investments:		
UK quoted	45,018	40,600
Global quoted	448,225	382,320
Sub-total equity	**493,243**	**422,920**
Bonds:		
Overseas Global Fixed Income	71,442	121,801
Overseas Global Dynamic	68,506	0
Other class 2 - absolute return bonds	66,549	66,821
Sub-total bonds	**206,497**	**188,622**
Property:		
Property funds	38,168	36,371
Sub-total property	**38,168**	**36,371**
Alternatives:		
Private Equity	87,042	47,367
Infrastructure	31,317	30,450
Hedge Funds	62,634	54,134
BMO – LDI Manager	34,253	28,759
Property Debt	27,402	12,688
Insurance Linked Securities	15,659	13,533
Sub-total alternatives	**258,307**	**186,931**
Total assets	**999,151**	**845,840**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rate, salary levels and other variables.

The Council element of the Fund liabilities has been assessed by Mercer Limited, an independent firm of actuaries. Estimates for the Council element of the Fund are based on the latest full valuation of the scheme as at 31 March 2020.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2020/21	2019/20
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.0yrs	22.9yrs
Women	25.1yrs	25.0yrs
Longevity at 65 for future pensioners:		
Men	24.3yrs	24.2yrs
Women	26.7yrs	26.6yrs
Rate of inflation	2.70%	2.10%
Rate of increase in salaries	3.95%	3.35%
Rate of increase in pensions	2.80%	2.20%
Rate for discounting scheme liabilities	2.10%	2.40%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,583,779	1,489,817
Rate of inflation (increase or decrease by 0.1%)	1,560,344	1,513,252
Rate of increase in salaries (increase or decrease by 0.1%)	1,538,885	1,534,711
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,513,606	1,559,990

Techniques Employed to Manage Risk

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Further details of the market, credit and liquidity risk management are detailed in Note 16 of the Shropshire County Pension Fund Annual Report.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. A triennial valuation was completed as at 31 March 2019 with the next one due to be completed as at 31 March 2022. Revised contribution rates from the 2019 actuarial valuation took effect on 1st April 2020.

The Government announced in 2019 that the "McCloud judgment" needs to be remedied for all schemes including the LGPS. The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. As part of the 2019 actuarial valuation, the actuary estimated that the cost of the judgment could be an increase in past service liabilities of broadly £12m (at a Fund level) and an increase in Primary Contribution rate of 0.8% of Pensionable pay per annum. Shropshire Council chose to pay this additional 0.8% and it is included within the revised contribution rates.

The Council anticipated to pay £21.002m expected contributions to the scheme in 2021/22.

The weighted average duration of the defined benefit obligation for scheme members is 15 years for 2020/21 (15 years 2019/20).

Early Payment of 3 years LGPS deficit lump sum in April 2020

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. Shropshire Council) pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has foregone. At the time of calculating the deficit lump sum amounts (as part of the 2019 valuation) the Council had a total deficit repayment value of £52m, with an agreed 19 year deficit recovery period. Paying in advance of this schedule enables a gross saving to be taken due to the avoidance of these "interest" payments. This saving has been used to assist with the Council's corporate savings targets within the budget. As a result of the early payment there is a difference between the value of the Pensions Reserve and the Pensions Liability held on the Balance Sheet as per the below table.

	31st March 2021 £000
Balance on Pensions Reserve	(537,647)
2021/22 Lump Sum Deficit Repayment	2,887
2022/23 Lump Sum Deficit Repayment	2,877
Balance on Pensions Liability	(531,883)

43. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government
Central Government has significant influence over the general operations of the Council, being responsible for the statutory framework within which the Council operates, provides the majority of its funding through the payment of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments appear in other parts of the Statement of Accounts.

Members and Officers
Members of the Council have direct control over the Council's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Council's management team. All Council members and senior officers have been contacted, advising them of their obligations and asking for any declarations of related party transactions to be disclosed. Members are also asked to confirm that their entries in their Disclosure of Pecuniary Interests are correct.

The Council has made payments to a number of outside organisations on which it is represented by members. The total amount of payments to these bodies in 2020/21 was £21.462m compared with £27.971m for 2019/20.

Councillors are often members of other public or charitable organisations in their own capacity, or are employed by organisations that we process transactions with. These relationships are declared within the Members' register. The Council has made payments of £6.100m to organisations where members and senior officers are employed and £0.788m to organisations where members and senior officers occupy positions in their own capacity.

Entities Controlled or Significantly Influenced by the Council
As administrator for the pension fund, the Council has control of the fund within the overall statutory framework. The Council received £1.476m from the pension fund for the costs of administration it provided in 2020/21 compared with £1.324m for 2019/20.

The Council also has group relationships with West Mercia Energy, West Mercia Supplies Pension, Shropshire Towns & Rural Housing, Cornovii Developments Ltd and IP&E Ltd. Further detail on the type of relationship held with each company is considered in more detail under the Group Accounts section which begins on page 115.

During 2020/21 expenditure of £12.944m and income of £0.790m was incurred between Shropshire Council and Shropshire Towns & Rural Housing Limited. There was a creditor balance of £1.316m and a debtor balance of £0.317m as at 31st March 2021.

There was no income or expenditure incurred between Shropshire Council and IP&E Ltd during 2020/21. There were no creditor or debtor balances as at 31st March 2021.

During 2020/21 income of £0.594m was incurred between Shropshire Council and Cornovii Developments Ltd.

During 2020/21 Shropshire Council paid West Mercia Energy £3.747m and received a distribution of £0.275m.

Shropshire Council have accounted for expenditure of £2.215m and income of £2.744m in relation to the Jersey Property Unit Trusts.

44. SCHOOLS

Transactions of Shropshire Council maintained schools are consolidated in the single entity financial statements.

Expenditure and income relating to these schools is detailed below:

	Expenditure £000	Income £000	Total £000
Primary	56,165	(61,240)	(5,075)
Secondary	2,855	(2,417)	438
Special	2,943	(3,531)	(588)
Total	**61,963**	**(67,188)**	**(5,225)**

The number of Shropshire Council maintained schools in 2020/21 was:

	31st March 2021	31st March 2020
Primary	84	85
Secondary	1	1
Special	1	2
Total	**86**	**88**

45. MARCHES LOCAL ENTERPRISE PARTNERSHIP

The Marches Local Enterprise Partnership was launched in 2010 to create conditions for economic vitality and sustainable employment across the regions represented by the 3 Councils.

The Marches Local Enterprise Partnership Limited was incorporated on 12th February 2019 however the grant funding is still received by Shropshire Council as the accountable body for the Marches LEP. All funding and transactions in relation to this funding are processed through Shropshire Council's accounts. Shropshire Council's role within these transactions is deemed to be an agent, acting as an intermediary, therefore Shropshire Council accounts do not include the total income and expenditure for the Marches LEP. Instead, each Council within the Marches LEP will include any funding received from the Marches LEP and expenditure incurred in relation to LEP projects within their accounts. Accordingly any cash balances held by Shropshire Council in relation to the LEP is represented by a creditor within the Council's accounts.

Detailed below are the total funding received and expenditure paid out (cash) by Shropshire Council by 31st March in relation to the Marches LEP including the net creditor within Shropshire Council's balance sheet.

	2020/21		2019/20	
	£000	£000	£000	£000
Opening Creditor 1 April		**(38,417)**		**(14,727)**
Funding Received:				
Growth Deal	(19,676)		(29,468)	
Growth Hub	(641)		(240)	
Core Funding	(544)		(856)	
Capacity and Other Project Funding	(47)		0	
Careers & Enterprise	(329)		(141)	
Match Funding – Partner Contributions	(90)		(60)	
Marches Investment Fund	(265)		(229)	
Interest Received	(179)		0	
		(21,771)		(30,994)
Expenditure:				
Growth Deal Projects	26,754		6,017	
Growth Hub	507		215	
Capacity Funding Projects	192		212	
Careers & Enterprise	144		124	
Marches Investment Fund Expenditure	1,587		0	
LEP Review Project	72		280	
LEP Management Costs	1,104		456	
		30,360		7,304
Marches LEP Creditor		**(29,828)**		**(38,417)**

46. BETTER CARE FUND

Shropshire Council and Shropshire Clinical Commissioning Group are partners in the provision of a range of services including hospital admission avoidance, hospital discharge planning, carers' support and reablement. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006, which enables health and social care authorities to work together for a common objective, creating a pooled fund, with the aims as below. In Shropshire, the Council acts as the host authority for the pooled fund.

The aims of, and benefits to, the partners in entering into this agreement are to:
- improve the quality and efficiency of the services;
- meet the national conditions and local objectives as set out in the Better Care Fund plan;
- make more effective use of resources through the establishment and maintenance of an aligned fund for expenditure on the services

Financing	2020/21	2019/20
	£000	£000
Pooled Fund		
Funding provided to the Better Care Fund:		
Shropshire Council	0	0
Shropshire CCG	12,960	7,779
	12,960	**7,779**
Expenditure met from the Better Care Fund:		
Shropshire Council	12,960	7,779
Shropshire CCG	0	0
	12,960	**7,779**
Non-Pooled Fund		
Funding provided to the Better Care Fund:		
Shropshire Council	16,987	19,356
Shropshire CCG	14,220	13,839
	31,207	**33,195**
Expenditure met from the Better Care Fund:		
Shropshire Council	14,747	18,438
Shropshire CCG	14,220	13,839
	28,967	**32,277**
Total Better Care Fund		
Total funding provided to the Better Care Fund:	**44,167**	**40,974**
Total expenditure met from the Better Care Fund:	**41,927**	**40,056**
Net Underspend Arising on the Better Care Fund During the Year	**2,240**	**918**

The Pooled Fund has increased significantly during 2020/21, following a variation to the section 75 agreement as a result of the Covid-19 pandemic. The Government mandated that the NHS would fully fund new or additional 'out of hospital' health and social care support packages during the pandemic. The Council has put in place the resulting support packages and the costs have been met by the Clinical Commissioning Group.

The underspend that has arisen during 2020/21 relates to Disabled Facilities Grants. The remaining balance will be carried forward into 2021/22.

47. TRUST ACCOUNTS

Funds held in Trust Accounts are not available for the Council's use. The Council supports the work of a number of trusts including:

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
Shropshire Youth Foundation	Supports the development of under 25 year old residents in Shropshire through their leisure time activities.	(9,024)	(27,251)	276,162	(4,050)
Shropshire Schools Jubilee Trust	General fund to support the learning needs of children and young people either living or studying in Shropshire.	(4,715)	(16,766)	158,621	-
Rosalie Inskip Music Trust	Supports excellence in music for young people living in Shropshire.	(8,700)	(40,897)	351,619	-
Priory Educational Trust	Charitable trust to support ex-pupils of Priory Boys School.	(1,311)	(7,396)	59,375	-
Lyneal Trust	A charity that offers canal and canal side holidays for people with disabilities, their family and friends.	(59,800)	46,969	633,536	(12,058)
Sight Loss Shropshire	A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin	(24,173)	(56,539)	606,639	-

Accounts are prepared and published for these organisations by Shropshire Council in our role of administering the trusts.

Trusts deliver great benefit into the local community and make a valuable contribution but the Council itself does not derive benefit from them.

48. CONTINGENT LIABILITIES

At 31 March 2021 Council had the identified the following contingent liabilities:

There are a number of legal cases outstanding that may result in future costs for the Council. These include:

- Employment tribunal appeal
- Planning Inquiries
- Potential planning enforcement cases where there is the possibility that we will need to do the works and try to recover the costs.
- Planning litigation

The Council's usual practice when outsourcing a service that requires continued pension provision for employees is to require the contractor to put a Bond in place to reduce the Council's risk regarding picking up outstanding pension liabilities on termination of the admission agreement. The Council has provided additional guarantees, above those covered automatically by the Local Government Pension Scheme Regulations, to a number of Bodies that have been admitted to the Shropshire County Pension Fund. The bodies with additional guarantees who currently have employees who are active members of the scheme are listed below. The Bodies listed as being grouped with Shropshire Council means all Pension assets and liabilities stay with the Council and they contribute the consolidated Council Employer pension contribution rate unless stated otherwise.

Bodies that have additional pension liability guarantee

Employer	Active Members	Deferred Members	Pensioners Members	Dependant Members	Surplus/(Deficit) as at 31/03/2020 Valuation
Age UK Telford & Wrekin	4	11	23	0	(£0.132m)
Association of Local Councils	2	0	1	0	(£0.037m)
Coverage Care from 1/3/1997	7	29	126	11	£1.111m
Coverage Care from 13/1/2013	13	21	11	2	£0.448m
Livability	1	0	0	0	£0.000m
Perthyn	5	11	5	0	£0.007m
Shropshire Towns & Rural Housing	127	47	15	1	(£0.007m)
Connexus Housing One Ltd	3	2	16	1	£0.727m

Bodies that have additional pension liability guarantee and are Grouped with the Council

Employer	Active Members	Deferred Members	Pensioners Members	Dependant Members
Bethphage from 8/12/2016	15	2	0	0
Bethphage from1/7/2017	9	1	1	0
Energize Shropshire Telford & Wrekin	1	0	0	0
Enterprise South West Shropshire	1	1	0	0
South Shropshire Leisure Ltd *	14	27	3	0
The Strettons Mayfair Trust	2	0	0	0

* South Shropshire Leisure Ltd Employer contribution rate is capped by the Council to 5%.

The Council has entered into six "Funding and Development Agreements" with a Development Trust for construction of supported living properties. Under these agreements the Development Trust has provided the Council with funding totalling £2.696m for the construction of a supported living property at each site. The contributions will be repayable if the properties cease to be used as supported living properties or the Council fails to conform to the stipulated conditions of the contract within a period of 30 years from when the properties are first occupied.

49. CONTINGENT ASSETS

The Council currently has a number of appeals lodged with HMRC with regard to VAT treatment, which may result in a reimbursement to the Council of VAT paid over to the Government. The specific cases include claims for postal services and waste sent for landfill.

These claims for reimbursement are subject to legal cases being pursued nationally and if successful will provide legal precedent to be applied. Therefore the values involved with each claim cannot be reliably estimated. Timescales on these cases are uncertain but should be progressed in the next 12-24 months.

Section 6

Group Accounts

Group Accounts

Introduction

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2020 to 31 March 2021. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies mean that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture. A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts. The transactions involved are not considered material to the Council's accounts however the Council has decided to provide a full disclosure in terms of bodies that it has a relationship with.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2021, with comparative figures for the previous financial year.

IP&E LIMITED

ip&e Ltd is a trading company wholly owned by Shropshire Council. It was established to provide public services on the council's behalf and also to trade with other organisations. The company was incorporated on 30 May 2012. On 17 February 2016, Cabinet agreed to bring the Council's relationship with ip&e Ltd to an end and terminate the strategic contract between the two parties. It was also agreed to terminate the service contracts between the Council and ip&e Ltd with effect from 31 March 2016. In its role as sole shareholder, the Cabinet agreed that ip&e Ltd should cease trading as soon as possible and take necessary actions to remove the company from the companies register. In 2019/20 the final financial transactions were undertaken enabling the company to be dissolved and removed from the companies register in 2020/21.

SHROPSHIRE TOWNS & RURAL HOUSING LIMITED

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013.

For 2020/21 Shropshire Towns and Rural Housing Limited had total income of £12.771m, total expenditure of £12.335m, assets of £7.933m and liabilities of £10.936m.

WEST MERCIA ENERGY

West Mercia Energy (WME) is a Purchasing Consortium that was established as a Joint Committee under s101 of the Local Government Act 1972. Shropshire Council is one of four constituent

Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Telford & Wrekin Council.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

For 2020/21 West Mercia Energy had total income of £61.313m, total expenditure of £54.817m, assets of £12.241m and liabilities of £11.088m.

WEST MERCIA SUPPLIES (PENSIONS)

West Mercia Supplies (Pensions) Joint Committee pursuant to section 101(5) of the Local Government Act 1972, was set up from 1st April 2020 by the Executives of the four Member Authorities, Herefordshire Council, Shropshire Council, Telford & Wrekin Council and Worcestershire County Council. The Executives of the four Member Authorities of West Mercia Energy (WME) agreed to remove the responsibility for the discharge of their functions in relation to the pension deficit liability in relation to former West Mercia Supplies (WMS) employees (including added years Benefits) from the business of the WME Joint Committee with effect from 1 April 2020. This is to enable any pension deficit to be separately identified, separately valued and monitored.

WMS Pensions has been accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures).

For 2020/21 West Mercia Supplies (Pensions) had total income of £0.217m, total expenditure of £7.102m, assets of £0.109m and liabilities of £7.535m.

JERSEY PROPERTY UNIT TRUST

On 24th January 2018 Shropshire Council purchased units in a Jersey Property Unit Trust. The Trust is responsible for appointing managing agents for the Shrewsbury Shopping Centres and any other day to day decisions affecting the trust.

On 31st January 2021 the shopping centres were transferred to be held directly by the Council therefore the assets and liabilities previously incorporated into Group Accounts from the JPUT have already been included within the Council's single entity accounts under the relevant headings of debtors, creditors and property, plant and equipment.

For 2020/21 the Jersey Property Unit Trust had total income of £2.744m, total operating expenditure of £2.216m, assets of £0.516m and liabilities of £0.002m.

SSC No.1 LIMITED

SSC No.1 Limited is a limited company wholly owned by Shropshire Council. The Company's principal activity is to hold an investment in a Jersey Property Unit Trust.

For 2020/21 the amounts incorporated into the group accounts for SSC No. Limited are income of £0.0.04m, total expenditure of £0.006m, assets of £0.020m and liabilities of £0.018m.

CORNOVII DEVELOPMENTS LIMITED

Cornovii Developments Limited is a limited company wholly owned by Shropshire Council. The Company's principal activity and reason for it being established is to address unmet housing need in the county of Shropshire.

For 2020/21 the amounts incorporated into the group accounts for Cornovii Developments Limited are total expenditure of £0.438m, assets of £4.080m and liabilities of £4.762m.

The Group Comprehensive Income & Expenditure Statement

2019/20										2020/21								
SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure		SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure
£000	£000	£000	£000	£000	£000	£000	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000
									Expenditure on Continuing Services									
177,619	0	177,619	(64,931)	0	(64,931)	112,688	0	112,688	Adult Services	191,718	0	191,718	(72,664)	0	(72,664)	119,054	0	119,054
10,380	635	11,015	(18,366)	(1,196)	(19,562)	(7,986)	(561)	(8,547)	Local Authority Housing	8,521	37	8,558	(18,419)	(617)	(19,036)	(9,898)	(580)	(10,478)
196,766	0	196,766	(127,946)	0	(127,946)	68,820	0	68,820	Children's Services	191,506	0	191,506	(121,393)	0	(121,393)	70,113	0	70,113
56,965	0	56,965	(54,188)	0	(54,188)	2,777	0	2,777	Finance, Governance and Assurance	55,490	0	55,490	(51,412)	0	(51,412)	4,078	0	4,078
1,703	0	1,703	(1,027)	0	(1,027)	676	0	676	Legal and Democratic Services	660	0	660	(119)	0	(119)	541	0	541
156,708	161	156,869	(45,499)	311	(45,188)	111,209	472	111,681	Place	155,637	(480)	155,157	(39,288)	451	(38,837)	116,349	(29)	116,320
0	0	0	0		0	0	0	0	Strategic Management Board	0	0	0	0	0	0	0	0	0
5,743	0	5,743	(61)	0	(61)	5,682	0	5,682	Workforce and Transformation	3,414	0	3,414	(486)	0	(486)	2,928	0	2,928
14,654	172	14,826	(10,121)	0	(10,121)	4,533	172	4,705	Corporate	38,197	275	38,472	(37,412)	0	(37,412)	785	275	1,060
620,538	**968**	**621,506**	**(322,139)**	**(885)**	**(323,024)**	**298,399**	**83**	**298,482**	**Net Cost of Services**	**645,143**	**(168)**	**644,975**	**(341,193)**	**(166)**	**(341,359)**	**303,950**	**(334)**	**303,616**
						27,542	0	27,542	Other Operating Expenditure							15,624	0	15,624
						39,556	129	39,685	Financing and Investment Income and Expenditure							43,629	256	43,885
						(292,441)	0	(292,441)	Taxation and Non Specific Grant Income							(319,838)	0	(319,838)

Group Accounts

2019/20										2020/21								
SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure		SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure
£000	£000	£000	£000	£000	£000	£000	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000
						73,056	**212**	**73,268**	**(Surplus)/Deficit on the provision of services**							**43,365**	**(78)**	**43,287**
						0	(245)	(245)	Associates & Joint Ventures Accounted for on an equity basis							0	(194)	(194)
						0	0	0	Tax expenses of subsidiaries							0	0	0
						73,056	**(33)**	**73,023**	**Group (Surplus)/Deficit**							**43,365**	**(272)**	**43,093**
						(92,765)	0	(92,765)	(Surplus) or deficit on revaluation of non-current assets							136,187	0	136,187
								0	Impairment losses on Non-Current Assets Charged to the Revaluation Reserve							281	0	281
						(28,057)	1,217	(26,840)	Remeasurement of pension assets and liabilities							22,416	1,692	24,108
						0	0	0	Other Pension Net Liability Adjustment							0	0	0
						(120,822)	**1,217**	**(119,605)**	**Other Comprehensive Income and Expenditure**							**158,884**	**1,692**	**160,576**
						(47,766)	**1,184**	**(46,582)**	**Total Comprehensive Income and Expenditure**							**202,249**	**1,420**	**203,669**

Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2020	**13,510**	**67,993**	**81,504**	**10,140**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**	**(3,818)**	**397,418**
Transfer of Dedicated Schools grant deficit	**0**	**2,247**	**2,247**	**0**	**0**	**0**	**2,247**	**(2,247)**	**0**	**0**	**0**
Revised Opening Balance	**13,510**	**70,241**	**83,751**	**10,140**	**4,492**	**41,985**	**140,368**	**260,868**	**401,236**	**(3,818)**	**397,418**
Movement in reserves during 2020/21											
Surplus or (deficit) on the provision of services	(39,196)	0	(39,196)	7,381	0	0	(31,815)	0	(31,815)	(11,278)	(43,093)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(158,884)	(158,884)	(1,692)	(160,576)
Total Comprehensive Income and Expenditure	(39,196)	0	(39,196)	7,381	0	0	(31,815)	(158,884)	(190,699)	(12,970)	(203,669)
Adjustments between Group Accounts and authority accounts	(11,550)	0	(11,550)	0	0	0	(11,550)	0	(11,550)	11,550	0
Net Increase/Decrease before Transfers	**(50,746)**	**0**	**(50,746)**	**7,381**	**0**	**0**	**(43,365)**	**(158,884)**	**(202,249)**	**(1,420)**	**(203,669)**
Adjustments between accounting basis and funding basis under regulations	74,674	0	74,674	(6,110)	1,458	3,102	73,124	(73,124)	0	(15)	(15)
Net Increase/Decrease before Transfers to Earmarked Reserves	**23,928**	**0**	**23,928**	**1,271**	**1,458**	**3,102**	**29,759**	**(232,008)**	**(202,249)**	**(1,435)**	**(203,684)**
Transfers to/from Earmarked Reserves	(23,348)	23,418	70	(70)	0	0	0	0	0	0	0
Increase/Decrease in 2020/21	**580**	**23,418**	**23,998**	**1,201**	**1,458**	**3,102**	**29,759**	**(232,008)**	**(202,249)**	**(1,435)**	**(203,684)**
Balance at 31 March 2021	**14,090**	**93,659**	**107,749**	**11,341**	**5,950**	**45,087**	**170,127**	**28,860**	**198,987**	**(5,253)**	**193,734**

2018/19 Comparative figures	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**	**(2,651)**	**350,819**
Movement in reserves during 2019/20											
Surplus or (deficit) on the provision of services	(64,765)	0	(64,765)	5,716	0	0	(59,049)	0	(59,049)	(13,974)	(73,023)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	120,822	120,822	(1,217)	119,605
Total Comprehensive Income and Expenditure	**(64,765)**	**0**	**(64,765)**	**5,716**	**0**	**0**	**(59,049)**	**120,822**	**61,773**	**(15,191)**	**46,582**
Adjustments between Group Accounts and authority accounts	(14,007)	0	(14,007)	0	0	0	(14,007)	0	(14,007)	14,007	0
Net Increase/Decrease before Transfers	**(78,772)**	**0**	**(78,772)**	**5,716**	**0**	**0**	**(73,056)**	**120,822**	**47,766**	**(1,184)**	**46,582**
Adjustments between accounting basis and funding basis under regulations	73,083	0	73,083	(5,459)	252	7,587	75,463	(75,463)	0	17	17
Net Increase/Decrease before Transfers to Earmarked Reserves	**(5,689)**	**0**	**(5,689)**	**257**	**252**	**7,587**	**2,407**	**45,359**	**47,766**	**(1,167)**	**46,599**
Transfers to/from Earmarked Reserves	3,663	(3,733)	(70)	70	0	0	0	0	0	0	0
Increase/Decrease in 2019/20	**(2,026)**	**(3,733)**	**(5,759)**	**327**	**252**	**7,587**	**2,407**	**45,359**	**47,766**	**(1,167)**	**46,599**
Balance at 31 March 2020	**13,510**	**67,993**	**81,503**	**10,141**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**	**(3,818)**	**397,418**

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Purchase of goods and services from subsidiaries	11.550	0	0	0	11,550	0	11.550	(11,550)	0
Total adjustments between Group Accounts and authority accounts	**11,550**	**0**	**0**	**0**	**11,550**	**0**	**11,550**	**(11,550)**	**0**

Group Balance Sheet at 31 March 2021

31 March 2020 SC £000	31 March 2020 Adjustments £000	31 March 2020 Group £000		31 March 2021 SC £000	31 March 2021 Adjustments £000	31 March 2021 Group £000
1,138,479	18,066	1,156,545	Property, Plant & Equipment	980,046	26	980,072
2,260	0	2,260	Heritage Assets	2,193	0	2,193
47,652	0	47,652	Investment Property	59,261	0	59,261
7,376	0	7,376	Intangible Assets	6,393	0	6,393
585	0	585	Assets Held for Sale	599	0	599
1,196,352	**18,066**	**1,214,418**	**Total Non-Current Assets**	**1,048,492**	**26**	**1,048,518**
20,206	(19,806)	400	Long Term Investment	400	0	400
0	(1,264)	(1,264)	Investments in Associates and Joint Ventures	0	(1,571)	(1,571)
19,857	(1,000)	18,857	Long Term Debtors	22,628	(4,210)	18,418
1,236,415	**(4,004)**	**1,232,411**	**Total Long Term Assets**	**1,071,520**	**(5,755)**	**1,065,765**
			Current Assets			
740	0	740	Current Held for Sale Investment Properties	250	0	250
3,102	0	3,102	Assets Held for Sale	767	0	767
64,500	0	64,500	Short Term Investments	70,000	0	70,000
572	180	752	Inventories	697	1,157	1,854
67,373	220	67,593	Short Term Debtors	99,834	(188)	99,646
93,007	8,879	101,886	Cash & Cash Equivalents	78,438	8,939	87,377
229,294	**9,279**	**238,573**	**Total Current Assets**	**249,986**	**9,908**	**259,894**
1,465,709	**5,275**	**1,470,984**	**Total Assets**	**1,321,506**	**4,153**	**1,325,659**
			Current Liabilities			
(14,644)	0	(14,644)	Bank Overdraft	(14,902)	0	(14,902)
(6,013)	0	(6,013)	Short Term Borrowing	(13,893)	0	(13,893)
(106,991)	(2,290)	(109,281)	Short Term Creditors	(105,709)	(417)	(106,126)
(3,576)	0	(3,576)	Provisions	(3,912)	0	(3,912)
(10,446)	0	(10,446)	Grants Receipts in Advance – Revenue	(35,951)	0	(35,951)
(4,893)	0	(4,893)	Grants Receipts in Advance – Capital	(11,773)	0	(11,773)
146,563	**(2,290)**	**(148,853)**	**Total Current Liabilities**	**(186,140)**	**(417)**	**(186,557)**
1,319,146	**2,985**	**1,322,131**	**Total Assets Less Current Liabilities**	**1,135,366**	**3,736**	**1,139,102**
			Long Term Liabilities			
(649)	0	(649)	Long Term Creditors	(637)	0	(637)
(303,568)	0	(303,568)	Long Term Borrowing	(291,568)	0	(291,568)
(106,914)	0	(106,914)	Other Long Term Liabilities	(103,618)	0	(103,618)
(495,700)	(6,803)	(502,503)	Pensions Liability	(531,883)	(8,989)	(540,872)
(11,079)	0	(11,079)	Provisions	(8,673)	0	(8,673)
(917,910)	**(6,803)**	**(924,713)**	**Total Long Term Liabilities**	**(936,379)**	**(8,989)**	**(945,368)**
401,236	**(3,818)**	**397,418**	**Total Assets Less Liabilities**	**198,987**	**(5,253)**	**193,734**
			Financed by:			
138,121	5,030	143,151	Usable Reserves	170,127	5,668	175,795
263,115	(8,848)	254,267	Unusable Reserves	28,860	(10,921)	17,939
401,236	**(3,818)**	**397,418**	**Total Reserves**	**198,987**	**(5,253)**	**193,734**

Group Cash Flow Statement

SC £000 (2019/20)	Adjustments £000 (2019/20)	Group £000 (2019/20)	Revenue Activities	SC £000 (2020/21)	Adjustments £000 (2020/21)	Group £000 (2020/21)
73,056	(33)	73,023	Net (surplus) or deficit on the provision of services	43,365	(272)	43,093
(152,807)	(526)	(153,333)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(120,052)	3,839	(116,213)
55,113	(30)	55,083	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	70,353	(33)	70,320
(24,638)	**(589)**	**(25,227)**	**Net cash flows from operating activities**	**(6,334)**	**3,534**	**(2,800)**
(5,390)	(2,783)	(8,173)	Investing activities	(9,073)	(3,319)	(12,392)
8,720	(172)	8,548	Financing activities	30,234	(275)	29,959
(21,308)	**(3,544)**	**(24,852)**	**Net (increase) or decrease in cash and cash equivalents**	**14,827**	**(60)**	**14,767**
57,055	5,335	62,390	Cash and cash equivalents at the beginning of the reporting period	78,362	8,880	87,242
78,363	**8,879**	**87,242**	**Cash and cash equivalents at the end of the reporting period**	**63,535**	**8,940**	**72,475**

Notes to Group Accounts

G1. Accounting Policies

G1.1 General

The single entity accounting policies detailed on pages 27-48 have been adopted and applied for group account purposes.

G1.2 Reason for Consolidation

The organisations included within Group Accounts have been assessed to establish whether Shropshire Council controls the entity, has significant influence over the entity or has joint control of the arrangement. If the organisation does not meet one of these criteria then it is not included within the Group Accounts.

ip&e Ltd, Shropshire Towns and Rural Housing Limited, Cornovii Developments Limited and SSC No.1 Limited are all wholly owned by Shropshire Council. Shropshire Council controls each of the organisations therefore they have been consolidated into the Group Accounts as subsidiaries.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME and WMS (Pensions) within this Council. Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and Telford & Wrekin Council. The Council has joint control over the arrangement and has rights to share the net assets. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

The Council has control over the Jersey Property Unit Trusts as it is exposed to risk and variable returns and has the ability to affect those returns through approval of key strategic decisions. The Jersey Property Unit Trusts have therefore been included within Group Accounts as a subsidiary.

G1.3 Basis for Consolidation

ip&e Ltd has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

Shropshire Towns and Rural Housing Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

WME has been accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures). Shropshire Council's share of West Mercia Energy' balances is 24.7%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on draft statement of accounts for 31st March 2021.

WMS Pensions has been accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures). Shropshire Council's share of West Mercia Energy' balances is 25%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on draft statement of accounts for 31st March 2021.

The Jersey Property Unit Trust has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3.

SSC No.1 Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3 with the accounts for the Jersey Property Unit Trust.

Cornovii Developments Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

G1.4 Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

<u>Recognition</u>
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

In 2019/20 the Shopping Centre was consolidated into property, plant and equipment in the Balance Sheet based on the market value.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at current value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
Operational	
Land & Buildings	Existing Use Value (EUV) – determined as the amount that would be paid for the asset in its existing use

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

G2. Consolidation of West Mercia Energy

Figures in respect of West Mercia Energy have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WME £000	SC Share (24.7%) £000
Turnover	(61,313)	(15,169)
Cost of Goods Sold and Operating Expenses	53,737	13,295
Interest and Investment Income	(31)	(8)
Net Operating Surplus	**(7,607)**	**(1,882)**
Distribution of Surplus to Member Authorities	1,111	275
Net Surplus for the year	**(6,496)**	**(1,607)**

G3. Consolidation of West Mercia Supplies (Pensions)

Figures in respect of West Mercia Supplies (Pension) have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WMS(P) £000	SC Share (25%) £000
Turnover	(217)	(54)
Cost of Goods Sold and Operating Expenses	6,938	1,734
Interest and Investment Income	164	41
Net deficit for the year	**6,885**	**1,721**

G4. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£12.771m) and expenditure (£12.188m) of Shropshire Towns & Rural Housing Limited, giving a net income of £0.583m has been included within Local Authority Housing (HRA) in the Net Cost of Services. The inter-company transactions with Shropshire Council have been excluded from Local Authority Housing (HRA) (Income/Expenditure £12.154m).

G5. Consolidation of ip&e Ltd

There was no operating expenditure or income for ip&e Ltd in 2020/21.

G6. Consolidation of Jersey Property Unit Trust

The operating income (£2.744m) and expenditure (£2.216m) of the Jersey Property Unit Trust, giving a net income of £0.528m has been included within Place in the Net Cost of Services. The revaluation loss has been charged to expenditure within Place in Net Cost of Services.

G7. Consolidation of SSC No.1 Ltd

The operating income (£0.004m) and expenditure (£0.006m) of SSC No1. Ltd, giving a net expenditure of £0.002m has been included within Place in the Net Cost of Services. 100% of the income and expenditure of the Jersey Property Unit Trust has been consolidated into the Income and Expenditure account as detailed above therefore this has been excluded when consolidating SSC No1. Ltd.

G8. Consolidation of Cornovii Developments Ltd

The operating expenditure (£0.341m) of Cornovii Developments Ltd has been included within Place in the Net Cost of Services.

G9. Investment included in Group Balance Sheet

	WME £000	SC Share (24.7%) £000
Assets		
Plant & Equipment	14	3
Short term debtors	10,063	2,490
Cash and cash equivalents	2,164	535
Total Assets	**12,241**	**3,028**
Liabilities		
Short term creditors	(10,757)	(2,661)
Other long term liabilities	(331)	(82)
Total Liabilities	**(11,088)**	**(2,743)**
Net Investments in Associates and Joint Ventures	**1,153**	**285**

	WMS(P) £000	SC Share (25%) £000
Assets		
Short term debtors	109	27
Total Assets	**109**	**27**
Liabilities		
Short term creditors	(109)	(27)
Other long term liabilities	(7,426)	(1,857)
Total Liabilities	**(7,535)**	**(1,884)**
Net Investments in Associates and Joint Ventures	**(7,426)**	**(1,857)**

G10. Property, Plant & Equipment in Group Balance Sheet

The figures below provide information on the movement of non-current assets during 2020/21.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2020	**200,025**	**573,101**	**22,314**	**543,270**	**2,961**	**2,725**	**12,863**	**1,357,259**	**143,605**
Additions	4,496	4,491	1,157	29,991	0	0	7,345	**47,480**	916
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(56)	(151,072)	0	0	0	(120)	0	**(151,248)**	(21,261)
Revaluation increases/(decreases) recognised in the	1,447	(41,976)	0	0	0	(353)	0	**(40,882)**	9

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Surplus/Deficit on the Provision of Services									
Derecognition – disposals	(922)	(4,976)	0	0	0	0	0	**(5,898)**	0
Derecognition – other	(132)	(966)	(1,727)	(1,575)	(481)	0	0	**(4,881)**	(1,448)
Assets reclassified (to)/from Held for Sale	13	0	0	0	0	0	0	**13**	0
Other movements in cost or valuation	(99)	2,324	0	1,109	0	0	(5,474)	**(2,140)**	0
At 31 March 2021	**204,772**	**380,926**	**21,744**	**572,795**	**2,480**	**2,252**	**14,734**	**1,199,703**	**121,821**
At 1 April 2020	**0**	**0**	**(9,009)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,714)**	**(6,686)**
Depreciation charge for 2020/21	(4,048)	(17,315)	(3,078)	(19,291)	(113)	(54)	0	**(43,899)**	(6,877)
Depreciation written out to the Revaluation Reserve	137	14,917	0	0	0	7	0	**15,061**	4,663
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,911	2,387	0	0	0	47	0	**6,345**	90
Impairment losses/(reversals) recognised in the Revaluation Reserve	(127)	(154)	0	0	0	0	0	**(281)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	1,426	0	0	0	0	0	**1,426**	0
Derecognition – disposals	0	0	0	0	0	0	0	**0**	0
Derecognition – other	0	11	1,509	1,575	481	0	0	**3,576**	1,231
Other movements in depreciation and impairment	127	(1,272)	0	0	0	0	0	**(1,145)**	0
At 31 March 2021	**0**	**0**	**(10,578)**	**(207,409)**	**(638)**	**(1,006)**	**0**	**(219,631)**	**(7,579)**
NBV at 31 March 2021	**204,772**	**380,926**	**11,166**	**365,386**	**1,842**	**1,246**	**14,734**	**980,072**	**114,242**
NBV at 31 March 2020	**200,025**	**573,101**	**13,305**	**353,577**	**1,955**	**1,719**	**12,863**	**1,156,545**	**136,919**

The comparative movements in 2019/20 were as detailed below:

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2019	**196,767**	**567,078**	**19,898**	**525,492**	**3,578**	**2,115**	**7,525**	**1,322,453**	**137,179**
Additions	5,808	5,823	3,940	17,425	0	0	8,354	**41,350**	2,303
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10	48,862	0	0	0	(186)	0	**48,686**	4,801
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(630)	(27,630)	0	0	0	177	0	**(28,083)**	433
Derecognition – disposals	(2,020)	(17,805)	(61)	0	0	0	0	**(19,886)**	0
Derecognition – other	(142)	(1,951)	(1,463)	0	(617)	(80)	0	**(4,253)**	(1,111)
Assets reclassified (to)/from Held for Sale	(500)	(947)	0	0	0	(595)	0	**(2,042)**	0
Other movements in cost or valuation	732	(329)	0	353	0	1,294	(3,016)	**(966)**	0
At 31 March 2020	**200,025**	**573,101**	**22,314**	**543,270**	**2,961**	**2,725**	**12,863**	**1,357,259**	**143,605**
Depreciation and Impairments									
At 1 April 2019	**(136)**	**(30,243)**	**(6,808)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,423)**	**(9,650)**
Depreciation charge for 2019/20	(3,908)	(16,303)	(3,169)	(16,923)	(174)	(51)	0	**(40,528)**	(6,416)
Depreciation written out to the Revaluation Reserve	252	43,808	0	0	0	18	0	**44,078**	8,617
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,780	1,122	0	0	0	45	0	**4,947**	228
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**	0
Derecognition – disposals	0	1,446	24	0	0	0	0	**1,470**	0
Derecognition – other	12	90	944	0	616	80	0	**1,742**	535

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Other movements in depreciation and impairment	0	80	0	0	0	(80)	0	**0**	0
At 31 March 2020	**0**	**0**	**(9,009)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,714)**	**(6,686)**
NBV at 31 March 2020	**200,025**	**573,101**	**13,305**	**353,577**	**1,955**	**1,719**	**12,863**	**1,156,545**	**136,919**
NBV at 31 March 2019	**196,631**	**536,835**	**13,090**	**352,722**	**2,130**	**1,097**	**7,525**	**1,110,030**	**127,529**

G11. Contingent Assets and Liabilities

On the acquisition of the Jersey Property Unit Trusts a rental guarantees Escrow account was set up. This account is distributed to Shropshire Council and SSC No.1 Ltd or the previous owners Standard Life Aberdeen based on the level of occupancy of units within the Shrewsbury Shopping Centres. The funds held within the escrow as at 31st March 2019 were all distributed in 2019/20.

	2020/21 £000	2019/20 £000
Opening Balance	0	1,383
Release of funding	0	(1,383)
Closing Balance	**0**	**0**

Section 7

Housing Revenue Account

Shropshire Council

Housing Revenue Account

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. **Error! Bookmark not defined.**

HRA INCOME AND EXPENDITURE STATEMENT

2019/20		2020/21	
£		£	£
	Expenditure		
5,408,335	Repairs & Maintenance	5,508,381	
3,869,719	Supervision and Management	3,915,222	
91,501	Rents, rates taxes and other charges	121,333	
3,780,100	Depreciation – Dwellings	3,910,780	
172,990	- Other	185,280	
(3,150,792)	Impairment, revaluation losses and (reversals of impairment or revaluation losses)	(5,357,702)	
34,080	Debt Management Costs	46,840	
50,000	Provision for Bad or Doubtful Debts	25,000	
10,255,933	**Total Expenditure**		**8,355,134**
	Income		
(17,360,717)	Dwelling Rents	(17,395,866)	
(123,492)	Non Dwelling Rents	(109,683)	
(291,179)	Other Income	(4,385)	
(590,633)	Charges for Services and Facilities	(909,300)	
0	Contributions towards expenditure	0	
			(18,419,234)
(18,366,021)	**Total Income**		
(8,110,088)			**(10,064,100)**
173,630	HRA Share of Corporate & Democratic Core		191,083
(7,936,458)	**Net Cost of HRA Services**		**(9,873,017)**
(431,635)	(Gain) or loss on sale of HRA Assets		(269,234)
2,989,757	Interest payable and similar charges		2,988,342
(176,490)	Interest and Investment Income		(81,567)
(21,690)	Income & Expenditure in relation to investment properties & change in fair values		(27,400)
(139,574)	Capital grants and contributions receivable		(117,998)
(5,716,090)	**(Surplus) or deficit for the year on HRA Services**		**(7,380,874)**

Housing Revenue Account

MOVEMENT ON THE HRA STATEMENT

2019/20 £		2020/21 £
(9,813,486)	**Balance on the HRA at the end of the previous year**	**(10,140,313)**
(5,716,090)	**(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement**	**(7,380,874)**
5,459,263	Adjustments between accounting basis and funding basis under statute	6,110,170
(256,827)	**Net increase or (decrease) before transfers to or from reserves**	**(1,270,704)**
(70,000)	Transfers to or (from) Reserves	70,000
(326,827)	**(Increase) or Decrease in year on the HRA**	**(1,200,704)**
(10,140,313)	**Balance on the HRA at the end of the current year**	**(11,341,017)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

	2020/21	2019/20
Total Number of Dwellings at 31 March :		
Houses and Bungalows	3,165	3,174
Flats	877	875
	4,042	**4,049**
Change in Stock		
Stock at 1 April	4,050	4,071
Less: Sales – Right to Buy	(17)	(39)
Sales – Other	(1)	(2)
Disposal/restructuring	0	0
Acquisition – full ownership	10	15
Acquisition – shared ownership	1	4
	4,043	**4,049**

2. RENT ARREARS

	2020/21 £	2019/20 £
Due from Current Tenants	97,759	117,327
Due from Former Tenants	115,332	132,647
Total Rent Arrears as at 31 March	**213,091**	**249,974**
Pre-Payments	(633,579)	(593,023)
Net Arrears	**(420,488)**	**(343,049)**

As at 31 March 2021, the total provision set aside for HRA related bad debts is £0.391m.

3. BALANCE SHEET VALUE OF ASSETS

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Investment Properties	Current Assets Held for Sale	Total
	£	£	£	£	£	£	£	£
Cost or Valuation								
At 1 April 2020	**200,025,500**	**1,025,000**	**292,738**	**27,904**	**201,371,142**	**263,750**	**500,481**	**202,135,373**
Additions	4,496,471	0	11,160	36,568	**4,544,199**	0	0	**4,544,199**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(55,693)	20,000	0	0	**(35,693)**	0	0	**(35,693)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,446,922	0	0	0	**1,446,922**	4,700	0	**1,451,622**
Derecognition – disposals	(922,000)	0	0	0	**(922,000)**	0	(425,446)	**(1,347,446)**
Derecognition – other	(131,920)	0	0	0	**(131,920)**	0	0	**(131,920)**
Assets reclassified (to)/from Held for Sale	13,003	0	0	0	**13,003**	0	(13,003)	**0**
Other movements in cost or valuation	(99,036)	0	0	297,096	**198,060**	0	0	**198,060**
As at 31 March 2021	**204,773,247**	**1,045,000**	**303,898**	**361,568**	**206,483,713**	**268,450**	**62,032**	**206,814,195**
Accumulated Depreciation and Impairment								
At 1 April 2020	**0**	**0**	**(84,180)**	**0**	**(84,180)**	**0**	**0**	**(84,180)**
Depreciation Charge	(4,047,540)	(16,010)	(32,510)	0	**(4,096,060)**	0	0	**(4,096,060)**
Depreciation written out to the Revaluation Reserve	136,760	16,010	0	0	**152,770**	0	0	**152,770**
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,910,780	0	0	0	**3,910,780**	0	0	**3,910,780**
Impairment losses/(reversals) recognised in the Revaluation Reserve	(126,940)	0	0	0	**(126,940)**	0	0	**(126,940)**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	**0**	0	0	**0**
Derecognition – disposals	0	0	0	0	**0**	0	0	**0**
Derecognition – other	0	0	0	0	**0**	0	0	**0**
Other movements in depreciation and impairment	126,940	0	0	0	**126,940**	0	0	**126,940**
As at 31 March 2021	**0**	**0**	**(116,690)**	**0**	**(116,690)**	**0**	**0**	**(116,690)**
Net Book Value								
As at 31 March 2021	**204,773,247**	**1,045,000**	**187,208**	**361,568**	**206,367,023**	**268,450**	**62,032**	**206,697,505**

As at 31 March 2020	**200,025,500**	**1,025,000**	**208,558**	**27,904**	**201,286,962**	**263,750**	**500,481**	**202,051,193**

There is a difference of £305.328m between the tenanted valuation and the District Valuer's Vacant Possession Value of £508.880m at 1 April 2020.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market.

The difference represents the economic cost of the Government providing council housing at less than market rents.

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on Council Housing Stock and Infrastructure was financed as follows.

	2020/21 £	2019/20 £
Usable Capital Receipts	1,360,367	390,919
Revenue Contributions utilised in year	430,537	1,668,063
Major Repairs Allowance	2,638,117	3,700,356
Government Supported borrowing	0	0
Government Grants and Contributions	117,998	209,574
Total Capital Expenditure on Housing Stock	**4,547,019**	**5,968,912**

5. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

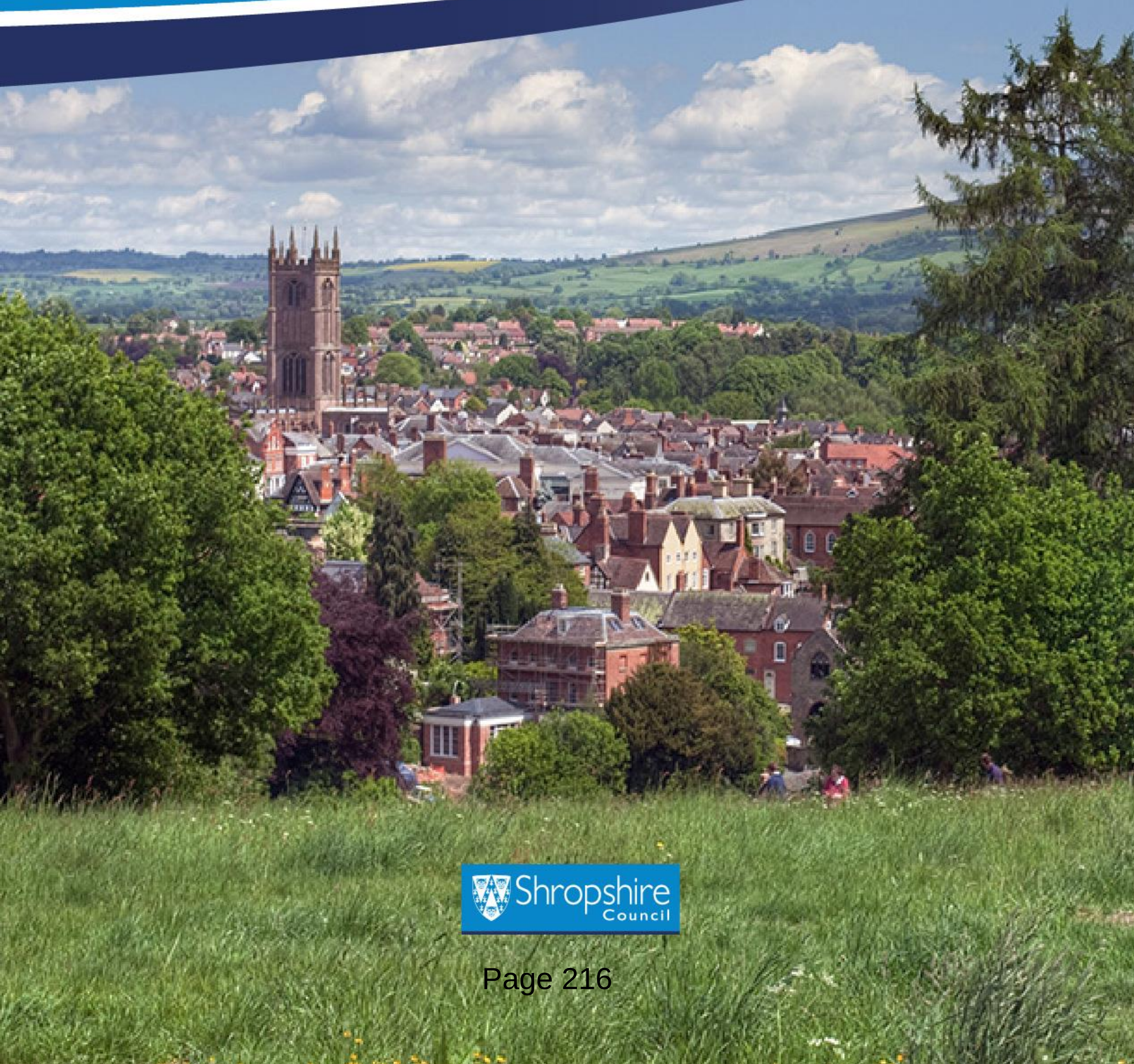
	2020/21 £	2019/20 £
Sale of Council Houses under Right to Buy (RTB)	1,134,000	2,402,760
RTB Discounts Repaid	0	0
Other Land & Buildings	0	157,965
Total Capital Receipts from HRA Asset Disposals	**1,134,000**	**2,560,725**
Less Capital Receipts subject to Pooling requirement	(561,054)	(583,690)
Net Capital Receipts from HRA Asset Disposals	**572,946**	**1,977,035**

6. HOUSING REPAIRS ACCOUNT

	2020/21 £	2019/20 £
Balance Brought Forward 1 April	25,000	25,000
Expenditure on Capital	0	0
Balance Carried Forward 31 March	**25,000**	**25,000**

Section 8

Collection Fund



Collection Fund

The Collection Fund is a statutory account showing the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution to local authorities and Central Government.

2019/20 Council Tax £000	2019/20 NDR £000	2019/20 Total £000		2020/21 Council Tax £000	2020/21 NDR £000	2020/21 Total £000
			Income:			
(201,825)	0	(201,825)	Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)	(210,018)	0	(210,018)
			Transfers from General Fund			
2	0	2	- Transitional relief	1	0	1
(43)	0	(43)	- Discretionary relief	(1,333)	0	(1,333)
0	(83,137)	(83,137)	Income collectable from business ratepayers	0	(40,451)	(40,451)
0	(2,639)	(2,639)	Transitional Protection Payments	0	(507)	(507)
(201,866)	**(85,776)**	**(287,642)**	**TOTAL INCOME**	**(211,350)**	**(40,958)**	**(252,308)**
			Expenditure:			
			Precepts			
162,638	40,055	202,693	- Shropshire Council and Parish and Town Councils	172,874	41,689	214,563
24,101	0	24,101	- West Mercia Police & Crime Commissioner	25,573	0	25,573
11,152	817	11,969	- Shropshire & Wrekin Fire Authority	11,611	831	12,442
0	40,872	40,872	- Central Government	0	41,560	41,560
			Charges to Collection Fund			
0	457	457	- costs of collection	0	449	449
			Bad and doubtful debts			
(128)	(205)	(333)	- write offs	(589)	2	(587)
1,228	583	1,811	- provisions	2,132	740	2,872
			Appeals rates			
0	(2,002)	(2,002)	- write offs	0	(3,173)	(3,173)
0	3,255	3,255	- provisions	0	(440)	(440)
			Contributions			
3,666	(560)	3,106	- Towards previous year's estimated Collection Fund surplus/(deficit)	3,355	1,119	4,474
202,657	**83,272**	**285,929**	**TOTAL EXPENDITURE**	**214,956**	**82,777**	**297,733**
791	**(2,504)**	**(1,713)**	**Deficit/(Surplus) for the Year**	**3,606**	**41,819**	**45,425**
(3,601)	1,014	(2,587)	Balance brought forward	(2,810)	(1,490)	(4,300)
(2,810)	**(1,490)**	**(4,300)**	**Balance carried forward**	**796**	**40,329**	**41,125**

NOTES TO THE COLLECTION FUND

1. GENERAL

In 2020/21 businesses were awarded expanded retail, nursery and newspaper reliefs as part of the Governments response to the COVID-19 pandemic. This decision was made post the setting of the precepts for 2020/21. The additional reliefs reduce the net amount the Council can collect from businesses and therefore has created a deficit on the Collection Fund. These reliefs are funded by Government via section 31 grants which have been received in 2020/21 and transferred to an earmarked reserve. This reserve will be used to offset the collection fund deficit when it is charged to the Council's General Fund in 2021/22.

As a result of the impact of Covid-19 on the Collection Fund Central Government announced that authorities would be allowed to spread the in year estimated deficit on the 2020/21 Collection Fund over three years, 2021/22 to 2023/24. The phasing of the deficit excludes any amounts funded by section 31 grants or any brought forward surplus or deficit.

2. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2020/21 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	28.87	5/9	16.04
A	17,523.90	6/9	11,682.60
B	29,476.77	7/9	22,926.37
C	26,156.86	8/9	23,250.54
D	18,989.14	9/9	18,989.14
E	15,159.79	11/9	18,528.64
F	8,112.19	13/9	11,717.61
G	4,340.48	15/9	7,234.13
H	278.27	18/9	556.54
			114,901.61
Adjustment for MoD Properties (619.68 Band D Equivalents) and Collection Rate (98.3%)			(1,344.18)
			113,557.43

3. NON-DOMESTIC RATES (BUSINESS RATES)

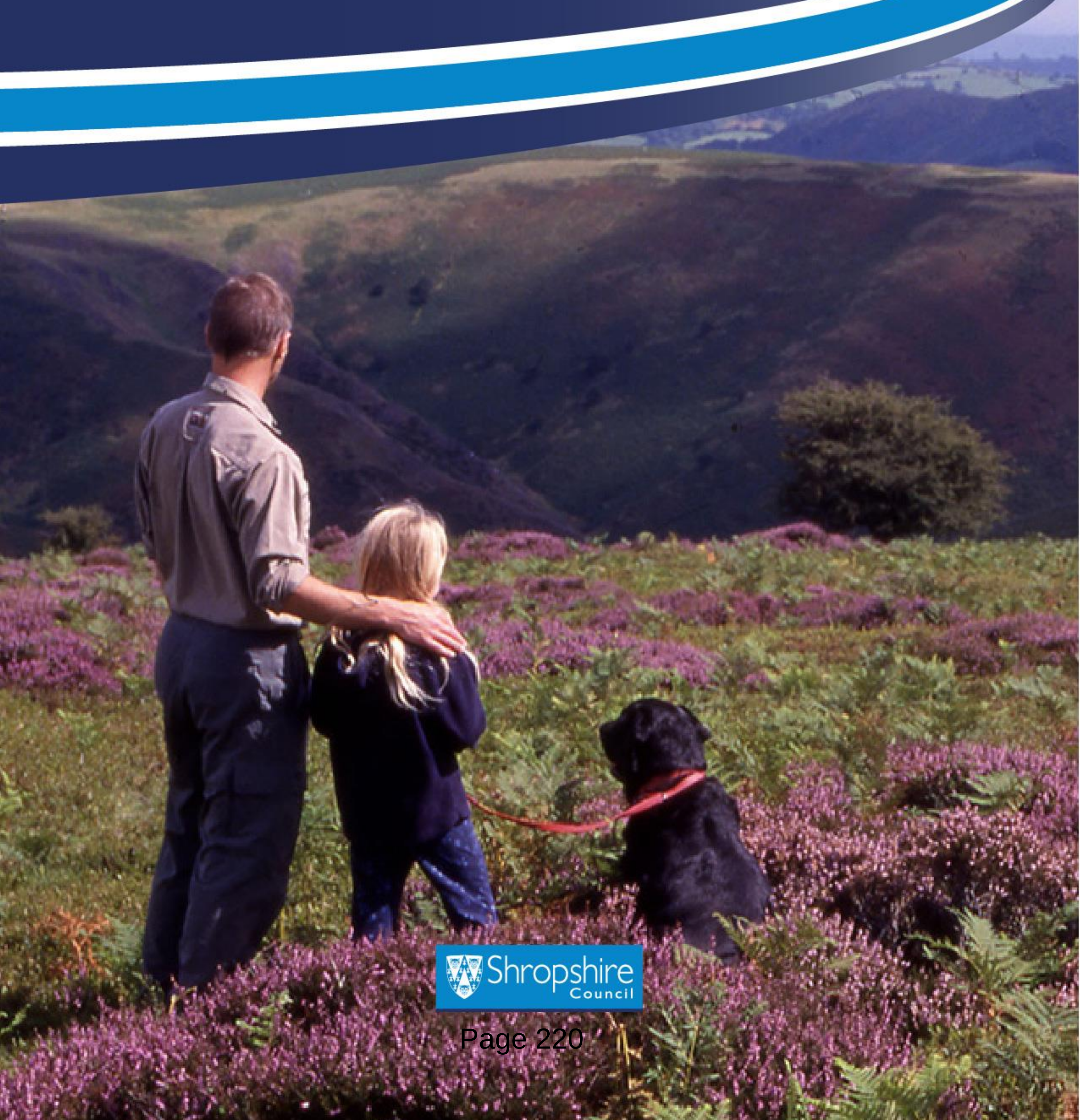
Shropshire Council is the billing authority for NDR and retains 49% share of the total collected and distributes the remaining balance to Central Government (50%) and Shropshire & Wrekin Fire Authority (1%).

Collection Fund

At 31 March 2021, the total non-domestic rateable value for all business premises in Shropshire was £235,338,571. The multiplier set by Government to calculate rate bills in 2020/21 was 49.9p for small businesses and 51.2p for all other businesses.

Section 9

Pension Fund Accounts



Pension Fund Accounts

Introduction

The Shropshire Fund increased in value by £363 million in 2020/21 to be valued at £2.194 billion at the end of the year. The Fund increased in value by 20.1% over the year and outperformed against its benchmark by 5.8%. The impact of COVID-19, in the last quarter of the 2019/20 financial year, had a major impact on financial markets across the world but they bounced back strongly during 2020/21 resulting in the significant increase in the Fund value during the year.

The reason fund performance was above benchmark for this year was largely due to the strong rebound in equity markets with both active equity managers producing significant returns. The Infrastructure portfolio continued to be impacted by COVID-19 therefore produced negative below benchmark returns during the year.

The Shropshire Fund had positive investment returns in a number of asset classes. The strongest returns were generated in active global equity significantly increasing in value by 47.9%. The Private Equity portfolio also generated strong returns of 41.7%. The Fund's UK equity manager produced strong returns of 33.1% and the global passive equity portfolio increased in value by 21.1%. Property delivered returns of 3.7% but the Fund's Infrastructure manager produced negative returns of 11.3% due to the impact of COVID-19 on valuations with airports and freight rail particularly impacted.

The Pensions Committee determine the strategic asset allocation for the fund. This outlines the proportion of assets that the fund invests in equities, bonds and alternative assets such as property and infrastructure. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the fund. The Committee undertook a series of Investment Strategy training workshops during the year before agreeing a revised strategic asset allocation in March 2021. The revised investment strategy will be implemented over the next 6-12 months.

The Pensions Committee undertakes thorough monitoring of the fund's investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities.

The fund undergoes an independent actuarial valuation every 3 years. The last actuarial valuation was conducted at the end of March 2019, identifying that the fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 94% which was an increase from 84% at the previous valuation in March 2016. As a local government pension scheme the fund is able to take a long-term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way, the latest results were very positive for the fund where the funding level increased by 10% over the valuation period. The next valuation will be undertaken on 31 March 2022, with results communicated in November 2022 and agreed with employers for the next three financial years commencing from 2022/23.

The fund is a Tier 1 signatory to the Stewardship Code, the highest rating given by the Financial Reporting Council, which is very positive news. This confirms how seriously the fund continues to take Responsible Investment and Environmental, Social and Governance issues. In 2020 the Fund commissioned its pooling company, LGPS Central Limited, to undertake an in-depth review of the Fund's exposure to financially material climate-related risks and opportunities. The

Climate Risk Report included both climate scenario analysis and carbon risk metrics. The Fund also published its first Task Force on Climate-related Financial Disclosures (TCFD) aligned report in November 2020. The Fund was one of the first LGPS funds in the UK to publish its public TCFD report, this included a number of recommendations which the Fund will be continuing to implement over the next 6-12 months. Further details relating to this and the significant progress which has been made during the year with regards climate risk monitoring, responsible investment, climate risk training and the Fund's carbon footprint are included within the Corporate Governance section of the annual report.

The Shropshire Fund continued to work with eight other funds in the Midlands region during the year. LGPS Central Ltd has been established to manage investment assets on behalf of its eight Local Government Pension Scheme (LGPS) funds across the Midlands region. It is a multi-asset manager, investing up to potentially £48.9 billion of assets (£23 billion invested as at March 2021), on behalf of 900,000 LGPS members and 2,500 employers.

LGPS Central Ltd is jointly owned on an equal share basis by eight pension funds and is a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The participating pension funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. West Midlands Integrated Transport Authority (ITA) Pension fund will also be an investor, but not a shareholder, with its shareholder rights represented by West Midlands.

The key objectives of LGPS Central will be to deliver cost savings and improve risk adjusted investment returns after cost, enable access to a wider range of asset classes for the participating pension funds, and to ensure good governance. LGPS Central manage a wide range of asset classes, employing a mix of internal and external investment management. The majority of assets under management are structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures. The company has been formed to act as an Alternative Investment Fund Manager (AIFM) to allow the participating LGPS administering authorities to pool their respective investments.

The governance structure for LGPS Central has been agreed by all partner funds. The LGPS Central Board and Executive Committee are in place. There are currently 65 permanent staff and a number of additional senior appointments were made during the year, including the Investment Director for Private Markets and the Director of Responsible Investment. In addition, a second graduate recruitment programme has just been launched in 2021 following on from the success of the first programme.

Regular investment pooling meetings continue to be held with representatives from each of the eight LGPS funds. The Practitioners Advisory Forum, which is made up of s151 Officers and Pension Managers from each fund, are updated regularly on the progress made and key developments of LGPS Central. Meetings of the Shareholders Forum, which is made up of one elected member from each fund, have been held during the year to approve key decisions. The Joint Committee, which is also made up of one elected member from each fund, has also met twice during the year to discuss any client related investors issues. The current Chair of the Joint Committee, which rotates between all 8 partner funds, is also the current Chair of the Shropshire County Pension Fund.

Pension Fund Accounts

LGPS Central Ltd is responsible for a number of advisory and discretionary mandates on behalf of its partner funds. Working with our partners to develop and implement our revised investment strategy will continue to be a major strategic focus for the fund over the next year. The first assets transferred from Shropshire County Pension Fund in March 2019 when £237 million was transitioned into their active global equity sub-fund. Assets in this sub fund have increased to £318 million as at 31 March 2021. Further assets are expected to transfer during 2021/22 into Infrastructure, Private Debt, Targeted Return and Sustainable Equity funds once launched.

Over the last 12 months The Pensions Administration Team have ensured the benefits it looks after for scheme members are paid accurately and on time, despite the impact of Covid-19 lockdowns and the enforced working from home.

During 2020/21, the team had to work from home and quickly adapted to new ways of remote working ensuring all administrative work continued and members could contact us if they needed to. The team were agile in their working practices which ensured all pensioners received their monthly payments on time and all retirements were processed in good time. Scheme members were still able to contact all members of the team throughout the year and the helpdesk remained fully functional dealing with member queries over the phone and via email. Although, the team have not been able to see members face to face, the team have still offered the facility to video call if members needed a consultation. Improvements in technology were implemented with a new telephony system procured. This will provide better statistics and information on when our customers are contacting us to help shape the service we offer.

Processes were changed to ensure members could return forms and documents electronically and scheme members and employers were provided with regular updates on the team's new ways of working. All regulatory deadlines were met, including issuing Annual Benefit Statements, P60 documents and Pensions Savings Statements by the statutory deadlines and reporting to Pensions Committee and Board continued. During the year the team worked hard to ensure the GMP reconciliation project was completed.

The information above and other developments are all covered in more detail on the following pages. We hope you find the report interesting and informative. As always, we welcome your feedback on the report and indeed, on any aspect of the scheme’s activities.

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

2019/20 £000		2020/21 £000
	Income	
	Contributions	
(46,626)	Employers (Note 7)	(70,005)
(15,706)	Employees (Note 7)	(16,471)
(6,460)	Transfers In from other pension funds (Notes 3, 7)	(5,263)
(68,792)	**Total Income**	**(91,739)**
	Expenditure	
	Benefits Payable	
62,251	Pensions (Note 7)	64,750
10,620	Commutation of pensions and lump sum retirement benefits (Note 7)	10,497
1,425	Lump Sum Death Benefits (Note 7)	1,334
	Payment to & on Account of Leavers	
224	Refund of contributions (Note 7)	190
4,896	Transfers to other funds (Notes 3, 7)	20,016
79,416	**Total Expenditure**	**96,787**
10,624	**Net (additions) / withdrawals from dealings with scheme members**	**5,048**
17,712	**Management Expenses (Note 8)**	**17,826**
28,336	**Net additions/(withdrawals) including fund management expenses**	**22,874**
	Returns on Investments	
(28,402)	Investment Income (Notes 3, 9)	(25,477)
(13,203)	(Gain)/loss on cash and currency hedging	(16,779)
124	Taxes on Income (Note 10)	102
97,123	(Profits) and losses on disposal of investments and changes in value of investments (Note 11a)	(343,417)
55,642	**Net (increase) / decrease in the net assets available for benefits during the year**	**(385,571)**
83,978	**(Surplus) / deficit on the pension fund for the year**	**(362,697)**
1,915,301	**Opening net assets of the scheme**	**1,831,323**
1,831,323	**Closing net assets of the scheme**	**2,194,020**

PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2021

31-Mar-20 £000		31-Mar-21 £000	%
	Long Term Investments		
1,315	Equities (Note 11b)	1,315	0.06
	Investment Assets		
77,746	Equities (Note 11b)	104,048	4.74
	Pooled Investment Vehicles		
1,726,527	Other Managed Funds (Note 11b)	2,063,901	94.07
	Other Investment Balances		
685	Loans (Note 11b)	685	0.03
	Cash Deposits		
18,650	Deposits (Note 11a)	16,950	0.77
2,000	Temporary Investments (Note 27)	3,500	0.16
1,826,923	**Total Investment Assets**	**2,190,399**	**99.83**
	Current Assets		
5,205	Contributions due from Employers (Note 18)	4,322	0.20
1,708	Other Current Assets (Note 18)	2,443	0.12
397	Cash Balances (Note 27)	245	0.01
	Current Liabilities		
(172)	Unpaid Benefits (Note 19)	(577)	(0.02)
(2,738)	Other Current Liabilities (Note 19)	(2,812)	(0.13)
0	Cash Balances (Note 27)	0	0
1,831,323	**Net Assets of the Scheme – Available to Fund Benefits as at 31 March**	**2,194,020**	**100**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021

1. DESCRIPTION OF FUND

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 208 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

Shropshire County Pension Fund	31 March 2021	31 March 2020
Number of employers with active members	146	148
Number of employees in the scheme		
Shropshire Council	5,771	5,916
Other employers	10,749	10,718
Total	**16,520**	**16,634**
Number of pensioners in the scheme		
Shropshire Council	5,626	5,431
Other employers	5,945	5,664
Total	**11,571**	**11,095**

Shropshire County Pension Fund	31 March 2021	31 March 2020
Number of deferred pensioners in the scheme		
Shropshire Council	8,591	8,644
Other employers	9,497	9,447
Total	**18,088**	**18,091**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2019. Currently, employer contribution rates range from 5.8% to 27.6% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, ill-health pensions and death benefits.

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

IFRS9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS9 had little impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the code. As a consequence, there was no requirement to change the measurement or classification of these assets.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information within the statement by the consulting actuary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

Contribution income
Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate. Contributions received earlier than the due date are accounted for on receipt and are recognised as contributions received within the pension fund account statement.
- Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than due date.

Transfers to and from other schemes
Transfers in and out relate to members who have either joined or left the Fund.
Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 7). Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment Income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

Fund account – expense items

Benefits payable
Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, provided that payment has been approved.

Taxation
The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses
The Fund discloses its pension fund management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

Administrative expenses	All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance	All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
Investment management expenses	Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 8 and grossed up to increase the change in value of investments. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition, the Fund has negotiated with Majedie Asset Management, Pimco Europe Ltd and BlackRock (Hedge Fund) that an element of their fee will be performance related. Total performance related fees for all managers in 2020/21 £1.271m (2019/20 £0.225m). Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2020/21, £0.077m of fees is based on such estimates (2019/20 £0.122m).

Net Assets Statement

Financial assets

The Share Capital investment in LGPS Central Limited is valued at transaction price i.e. cost. LGPS Central Limited began to trade on 3 April 2018 and consequently there are only limited trading results available. The Pension Fund's view is that the market value of this investment at 31 March 2021 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account
The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 14).

Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash and cash equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Loans and receivables
Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

Financial liabilities
A financial liability is recognised in the net asset statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

Additional voluntary contributions
Shropshire County Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. Please see note 20 for further information.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Investment in LGPS Central
The Share Capital investment has been valued at cost on the basis that fair value as at 31 March 2021 cannot be reliably estimated. Management have made this judgment because:

- LGPS Central Limited did not commence trading until 3 April 2018
- No dividend to shareholders has as yet been declared
- Published trading results are only available for two years, which in the Fund's opinion does not give sufficient information to allow fair value to be accurately calculated on a net asset basis.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of COVID-19 on valuations. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £180.4 million. There is a risk that this investment may be under or overstated in the accounts. A 5% movement in the valuation would equate to a £9.0m adjustment to the value of these assets
Hedge Funds	Some hedge fund investments are not regularly traded and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £137.3 million. There is a risk that this investment may be under or overstated in the accounts. A 5% movement in the valuation would equate to a £6.9m adjustment to the value of these assets

6. EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2021, and when these accounts were authorised, that require any adjustments to be made.

Global financial markets were particularly volatile during 2019/20 because of Brexit, COVID-19 and other significant political and geographical changes. This adversely affected the value of the Fund's investments during this period despite careful management. However, this downward trend did not continue during 2020/21 resulting in a £363 million increase in the Fund value and the Fund value has continued to increase until 31 July 21.

Guaranteed minimum pensions (GMP) equalisation remedy in LGPS is still to be legislated on. GMP reconciliation has ensured that data is up to date for when any changes required are known.

The McCloud remedy in LGPS is still to be legislated for, with an expected date of 1st April 2022. The Fund is not aware of any cases affected by the Goodwin test cases.

7. ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

2020/21	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contributions Received				
Employees	5,864	2,030	8,577	16,471
Employers	25,335	5,941	38,729	70,005
Transfers In	1,544	785	2,934	5,263
Total Income	**32,743**	**8,756**	**50,240**	**91,739**
Payments Made				
Pensions	36,952	8,207	19,591	64,750
Lump Sums	4,208	1,944	4,345	10,497
Death Benefits	455	408	471	1,334
Refunds	63	20	107	190
Transfers Out	2,674	22	*17,320	*20,016
Total Expenditure	**44,352**	**10,601**	**41,834**	**96,787**

2019/20 comparative figures	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contributions Received				
Employees	5,607	2,057	8,042	15,706
Employers	13,885	6,812	25,929	46,626
Transfers In	2,472	1,019	2,969	6,460
Total Income	**21,964**	**9,888**	**36,940**	**68,792**
Payments Made				
Pensions	35,938	7,675	18,638	62,251
Lump Sums	4,449	1,984	4,187	10,620
Death Benefits	533	445	447	1,425
Refunds	59	23	142	224
Transfers Out	2,196	586	2,114	4,896
Total Expenditure	**43,175**	**10,713**	**25,528**	**79,416**

*2020/21 Transfers Out figure includes £16.430m bulk transfers out.

This table shows a breakdown of the employers contributions above:

	2020/21 £000	2019/2020 £000
Employers normal contributions	**54,083	36,630
Employers deficit contributions	***14,263	8,177
Employers augmentation contributions	1,659	1,819
	70,005	**46,626**

** Employers normal contributions figure for 2020/21 includes upfront payment of 2021/22 normal contributions for Telford & Wrekin Council

*** Employers deficit contributions figure for 2020/21 includes upfront deficit payments covering three years for Shropshire Council

8. MANAGEMENT EXPENSES

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Management Expenses	2020/21 £000	2019/20 £000
Administrative costs	1,135	1,050
Investment management expenses	15,231	15,283
Oversight and governance costs	1,460	1,379
	17,826	17,712

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Fund's behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled fund investments.

The investment management expenses shown below includes £1.271m (2019/20 £0.225m) in respect of performance related fees paid/payable to the Fund's investment managers.

It also includes £3.028m in respect of transaction costs (2019/20 £2.561m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of Investments (see note 11a).

Investment Expenses	2020/21 £000	2019/20 £000
Management Fees	8,901	9,052
Performance Fees	1,271	225
Other Fees	1,989	3,414
Transaction Costs	3,028	2,561
Custody Fees	42	31
	15,231	15,283

The costs incurred by the fund in administering the Fund totalled £1.135m for the year ended 31 March 2021 (2019/20 £1.050m).

Administrative Costs	2020/21 £000	2019/20 £000
Employee Costs	753	682
IT	218	210
Consultants	75	32
Printing, Postage & Design	39	61
Office Accommodation	21	20

Subscriptions	14	16
Other Costs	15	29
	1,135	**1,050**

The costs incurred by the fund in Oversight and Governance totalled £1.460m for the year ended 31 March 2021 (2019/20 £1.379m).

Oversight & Governance costs	2020/21 £000	2019/20 £000
Investment advice	427	386
Employee costs (pensions investment)	234	190
Actuarial advice	74	154
LGPS Central Pooling costs	582	475
Responsible engagement overlay	50	65
External audit	22*	20
Performance analysis	28	29
Internal audit	22	19
Legal & Committee	7	16
Other Costs	14	25
	1,460	**1,379**

*The External audit figure for 2020/21 comprises the current year audit fee paid of £18,039 and £4,250 agreed fee variation charge for completing the 2019/20 audit. The total audit fee for 2020/21 as noted in the audit plan is £30,289. The outstanding amount due will be paid and accounted for in 2021/22

8a. MANAGEMENT EXPENSES

The tables below show a breakdown of investment management expenses by investment type.

2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction Costs £000	Other Costs £000
Equities	709	366	0	343	0
<u>Pooled Investments Vehicles</u>					
Global Equity	2,123	1,115	0	954	54
Fixed Income	3,162	1,945	0	1,034	183
Hedge Fund of Funds	2,217	711	1,271	0	235
Infrastructure	2,146	2,049	0	0	97
Pooled property investments	953	281	0	672	0
Private Equity	3,035	1,793	0	0	1,242
Property Debt	561	420	0	0	141
Insurance Linked Securities	283	221	0	25	37
	15,189	**8,901**	**1,271**	**3,028**	**1,989**
Custody Fees	42				
Total	**15,231**				

2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction Costs £000	Other Costs £000

2019/20 comparative figures	Total £000	Management Fees £000	Performance Related Fees £000	Transaction Costs £000	Other Costs £000
Equities	712	406	0	306	0
Pooled Investments Vehicles					
Global Equity	2,513	1,065	0	1,414	34
Fixed Income	3,361	2,198	0	817	346
Hedge Fund of Funds	1,035	584	225	0	226
Infrastructure	2,542	2,477	0	0	65
Pooled property investments	1,373	307	0	0	1,066
Private Equity	2,986	1,584	0	0	1,402
Property Debt	453	229	0	0	224
Insurance Linked Securities	277	202	0	24	51
	15,252	**9,052**	**225**	**2,561**	**3,414**
Custody Fees	31				
Total	**15,283**				

9. INVESTMENT INCOME

The table below analyses the investment income received by the Fund over the last 12 months.

	2020/21 £000	2019/20 £000
Dividends from equities	(3,053)	(5,493)
Income from pooled investment vehicles	(8,344)	(8,621)
Interest on cash deposits	(35)	(53)
Other	(14,045)	(14,235)
	(25,477)	**(28,402)**

10. TAXES ON INCOME

This table breaks down the taxes on income by asset class.

	2020/21 £000	2019/20 £000

	2020/21 £000	2019/20 £000
Withholding tax – Fixed interest securities	0	0
Withholding tax – equities	30	26
Withholding tax – pooled	72	98
	102	**124**

11. INVESTMENTS

This table shows investment assets by type of investment

	2020/21 £000	2019/20 £000
Investment Assets		
Equities	104,048	77,746
Pooled Funds		
Global Equity	999,156	780,233
Fixed Income	511,776	477,682
Hedge Fund of Funds	137,333	117,950
Infrastructure	69,301	76,961
Pooled property investments	75,611	85,290
Private Equity	180,438	119,887
Property Debt	57,777	36,928
Insurance Linked Securities	32,509	31,596
Other Investments		
Loans	685	685
Cash Deposits		
Deposits	16,950	18,650
Temporary Investments	3,500	2,000
Total	**2,189,084**	**1,825,608**
Long-term Investments		
UK unquoted equities		
Shares in LGPS Central asset pool	1,315	1,315
Total Investment Assets	**2,190,399**	**1,826,923**

11a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

Investment type 2020/21	Value as at 1 April £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Equities	79,061	56,114	(52,719)		22,907	*105,363

Investment type 2020/21	Value as at 1 April £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Pooled Investment Vehicles – Other Managed Funds	1,726,527	207,619	(197,843)	7,119	320,479	*2,063,901
Other Investment Balances	685					685
Sub total	**1,806,273**	**263,733**	**(250,562)**	**7,119**	**343,386**	**2,169,949**
Cash deposits – with Managers	18,650		(14)	(1,718)	32	16,950
Temporary Investments	2,000			1,500		3,500
Total	**1,826,923**	**263,733**	**(250,576)**	**6,901**	****343,418**	**2,190,399**

* Within the Pooled Investment Vehicles - other managed funds total of £2,063.901m are £408.057m of level 3 investments as at 31 March 2021. Within the Equities figure of £105.363m are £1.315m of level 3 investments as at 31 March 2021. The value of the level 3 investments was £307.676m as at 1st April 2020 which increased to £409.372m as at 31 March 2021. The increase in value is due to purchases of £56.083m, sales of £11.625m and change in market value of £57.238m.

** The total change in market value for 2020/21 as per the table above is £343.418m. This figure is made of up of profit on sales of £20.049m and also the difference between book cost and market value for the whole Fund which for 2020/21 was £323.369m

Investment type 2019/20 Comparative figures	Value as at 1 April £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Equities	127,254	48,977	(70,459)		(26,711)	*79,061
Pooled Investment Vehicles – Other Managed Funds	1,667,601	207,214	(69,239)	(8,595)	(70,454)	*1,726,527
Other Investment Balances	685					685
Sub total	**1,795,540**	**256,191**	**(139,698)**	**(8,595)**	**(97,165)**	**1,806,273**
Cash deposits – with Managers	115,796		(44)	(97,145)	43	18,650
Temporary Investments	2,000					2,000
Total	**1,913,336**		**(139,742)**	**(105,740)**	****(97,122)**	**1,826,923**

* Within the Pooled Investment Vehicles - other managed funds total of £1,726.527m are £306.361m of level 3 investments as at 31 March 2020. Within the Equities figure of £79.061m are £1.315m of level 3 investments as at 31 March 2020. The value of the level 3 investments was £274.472m as at 1st April 2019 which increased to £307.676m as at 31 March 2020. The increase in value is due to purchases of £47.266m, sales of £14.796m and change in market value of £0.734m.

** The total change in market value for 2019/20 as per the table above is -£97.122m. This figure is made of up of profit on sales of £7.988m and also the difference between book cost and market value for the whole Fund which for 2019/20 was -£105.110m.

12. STOCK LENDING

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collateralised lending generated income of £0.003m in 2020/21 and this is included within investment income in the Pension Fund Account. At 31 March 2021 £2.841m worth of stock (via the Custodian) was on loan, for which the Fund was in receipt (via the Custodian) of £3.055m worth of collateral representing 108% of stock on loan.

Although stock lending involves the transfer of title of those securities to the borrower, the lender's rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic interest in the securities transferred. During the period stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

13. ANALYSIS OF DERIVATIVES

Currently, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling. The global equity passive portfolio also has an equity protection strategy in place.

14. FAIR VALUE – BASIS OF VALUATION

Unquoted equities in LGPS Central are valued using the cost approach / considering Fair Value at Initial Recognition approach as these methodologies provide viable approaches to valuing this shareholding, and they both generate consistent valuations at historic cost less any adjustment for impairment. This will be the approach used for valuing this holding until any change in circumstances creates an alternative approach.

All other investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

The valuation basis for each category of investment asset is set out below.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market Quoted equities and pooled fund investments	Level 1	The published bid market price on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
		term nature of these financial instruments		
Pooled property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Pooled equity fund investments	Level 2	Index tracking funds & valuations are based on the market quoted prices of the respective underlying securities	Evaluated price feeds	Not required
Pooled fixed income fund investments	Level 2	Average of broker prices	Evaluated price feeds	Not required
Infrastructure	Level 2	Includes publicly listed investments. Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Shares in LGPS Central asset pool	Level 3	Valued using cost approach and considering fair value at initial recognition approach	No market for shares in LGPS Central and no immediate plans to pay dividends. Cost approach generates a figure similar to the original cost of investment when LGPS Central was created	Valuation reviewed on an annual basis to ascertain if there is any reason that this valuation may have been impaired
Insurance linked securities	Level 3	Closing single price. Investments are fair valued using earned net assets value method	NAV based pricing set on a forward pricing basis. NAV based pricing based upon either 3rd party broker marks or independent Milliman valuations using available industry loss assumptions and 3rd party reports.	Valuations could be affected by any changes to underlying values of the invested portfolio. Value appreciation/depreciation is typically dependent on and contingent on specific insurance events/triggers not occurring.
Property Debt	Level 3	Valued using amortised cost and considering fair value at initial recognition approach	Underlying property value, projected future cashflows, cash available, indicative market interest rates for similar products	Valuation reviewed on a quarterly basis to ascertain if there is a reason that this valuation may have been impaired
Private Equity and other unquoted	Level 3	Comparable valuation of similar companies in accordance with International Private	EBITDA multiple, revenue multiple, discount for lack of	Valuations could be affected by changes to expected cashflows or by

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
		Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020) or other appropriate guidelines	marketability, control premium	differences between audited and unaudited accounts
Hedge Funds	Level 3	Valuations received directly from the third party hedge funds with which the fund of hedge fund manager invests	Valuations/prices of the investments held are not publicly available. NAV based pricing set on a forward pricing basis	Valuations are affected by any changes to the value of the financial instrument being hedged against

Sensitivity of assets valued at level 3

The Fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020.

Asset	Potential variation in fair value (+/-)	Value as at 31-Mar-21 £000	Potential value on increase £000	Potential value on decrease £000
Private Equity	5%	180,438	189,460	171,416
Hedge Funds	5%	137,333	144,200	130,466
Insurance Linked	5%	32,509	34,134	30,884
Property Debt	5%	57,777	60,666	54,888
Unquoted UK Equity	5%	1,315	1,381	1,249
Total		**409,372**	**429,841**	**388,903**

Asset	Potential variation in fair value (+/-)	Value as at 31-Mar-20 £000	Potential value on increase £000	Potential value on decrease £000
Private Equity	5%	119,887	125,881	113,893
Hedge Funds	5%	117,950	123,848	112,052
Insurance Linked	5%	31,596	33,176	30,016
Property Debt	5%	36,928	38,774	35,082
Unquoted UK Equity	5%	1,315	1,381	1,249
Total		**307,676**	**323,060**	**292,292**

14a. FAIR VALUE HIERARCHY

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.

Level 2 - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 - where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Asset type 2020/21	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
Equities	Majedie Asset Management	UK Equities	104,042	104,042		
	LGPS Central Ltd*	UK Equities (unquoted)	1,315			1,315
Pooled Investment Vehicles	Majedie Asset Management	UK Pooled Fund	8,267	8,267		
	Pimco Europe Ltd	Global Bonds	142,416		142,416	
	HarbourVest Partners Ltd	Private Equity	180,438			180,438
	Aberdeen Property Investors	Property Unit Trusts	75,611		75,611	
	Blackrock	Hedge Fund	137,333			137,333
	Global Infrastructure Partners	Infrastructure	69,301		69,301	
	Legal & General	Global Equities	672,984		672,984	
	Blackrock	Fixed Interest	152,946		152,946	

Asset type 2020/21	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
	T Rowe Price	Global Dynamic Bonds	149,017		149,017	
	BMO	LDI	67,397		67,397	
	Securis	Insurance Linked Securities	32,509			32,509
	DRC	Property Debt	57,777			57,777
	LGPS Central Ltd	Global Equities	317,905	317,905		
Net Current Assets (incl cash & other)			24,762	24,762		
Total			**2,194,020**	**454,976**	**1,329,672**	**409,372**

Asset type 2019/20	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
Equities	Majedie Asset Management	UK Equities	77,742	77,742		
	LGPS Central Ltd*	UK Equities (unquoted)	1,315			1,315
Pooled Investment Vehicles	Majedie Asset Management	UK Pooled Fund	5,338	5,338		
	Pimco Europe Ltd	Global Aggregate Bonds	137,126	137,126		
	HarbourVest Partners Ltd	Private Equity	119,887			119,887
	Aberdeen Property Investors	Property Unit Trusts	85,290		85,290	
	Blackrock	Hedge Fund	117,950			117,950
	Global Infrastructure Partners	Infrastructure	76,961		76,961	
	Legal & General	Global Equities	559,961	559,961		
	Blackrock	Fixed Interest	135,629	135,629		
	T Rowe Price	Global Dynamic Bonds	138,121	138,121		
	BMO	LDI	66,806	66,806		
	Securis	Insurance Linked Securities	31,596			31,596
	DRC	Property Debt	36,928			36,928
	LGPS Central Ltd	Global Equities	214,934	214,934		
Net Current Assets (incl cash & other)			25,739	25,739		
Total			**1,831,323**	**1,361,396**	**162,251**	**307,676**

* Share Capital investment in LGPS Central Ltd has been carried at cost

15. FINANCIAL INSTRUMENTS

15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	31 March 2021			31 March 2020		
	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
Investment Assets						
Equities	1,315			1,315		
Financial Assets						
Equities	104,048			77,746		
Pooled Investment Vehicles – Other Managed Funds	2,063,901			1,726,527		
Other Investment Balances - Loans		685			685	
Cash		20,695			21,047	
Debtors		6,765			6,913	
Total Assets	**2,169,264**	**28,145**	**0**	**1,805,588**	**28,645**	**0**
Financial Liabilities						
Creditors			(3,389)			(2,910)
Total Liabilities	**0**	**0**	**(3,389)**	**0**	**0**	**(2,910)**
Total	**2,169,264**	**28,145**	**(3,389)**	**1,805,588**	**28,645**	**(2,910)**

15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2020/21 £000	2019/20 £000
Financial Assets		
Fair value through profit and loss	343,417	(97,123)
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
	343,417	**(97,123)**

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits to pay members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis and manage any identified risk in two ways:

- The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or by factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same.

Asset Type	Potential market movements (+/-)
UK Equities	19.0%
Global Unconstrained Equities	21.1%
Global Equities (passive)	20.0%
Unconstrained bonds	5.7%
Property	12.5%
Private Equity	28.3%
Hedge Funds	9.3%
Infrastructure	19.3%
Property Debt	7.2%
Insurance Linked Securities	4.5%
LDI	24.1%

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset type 2020/21	Value as at 31 March 2021 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash and Other	26,071	0	26,071	26,071
Investment Portfolio Assets				
UK Equities	103,652	19,694	123,346	83,958
Global Equities (unconstrained)	326,568	68,906	395,474	257,662
Global Equities (passive)	672,984	134,597	807,581	538,387
Unconstrained Bonds	444,379	25,330	469,709	419,049
Property	75,611	9,451	85,062	66,160
Private Equity	180,438	51,064	231,502	129,374
Hedge Funds	137,333	12,772	150,105	124,561
Infrastructure	69,301	13,375	82,676	55,926
Property Debt	57,777	4,160	61,937	53,617
Insurance Linked Securities	32,509	1,463	33,972	31,046
LDI	67,397	16,243	83,640	51,154
	2,194,020	**357,055**	**2,551,075**	**1,836,965**

Asset type 2019/20 Comparative Figures	Value as at 31 March 2020 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash and Other	27,050	0	27,050	27,050
Investment Portfolio Assets				
UK Equities	74,022	14,064	88,086	59,958
Global Equities (unconstrained)	223,996	47,487	271,483	176,509
Global Equities (passive)	559,961	111,992	671,953	447,969
Unconstrained Bonds	410,876	22,598	433,474	388,278
Property	85,290	14,499	99,789	70,791
Private Equity	119,887	34,168	154,055	85,719
Hedge Funds	117,950	11,205	129,155	106,745
Infrastructure	76,961	15,007	91,968	61,954
Property Debt	36,928	3,139	40,067	33,789
Insurance Linked Securities	31,596	1,422	33,018	30,174
LDI	66,806	20,576	87,382	46,230

Asset type 2019/20 Comparative Figures	Value as at 31 March 2020 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Total assets available to pay benefits	**1,831,323**	**296,157**	**2,127,480**	**1,535,166**

Interest rate risk

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 is set out below.

Asset Type	As at 31 March 2021 £000	As at 31 March 2020 £000
Cash and cash equivalents	16,950	9,692
Cash balances	245	397
Bonds	444,379	410,876
Total change in assets available	**461,574**	**420,965**

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates assuming all variables, in particular exchange rates, remain constant. This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk	Value as at 31 March £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
As at 31 March 2021				
Cash and cash equivalents	16,950	0	16,950	16,950
Cash balances	245	0	245	245
Bonds	444,379	4,444	448,823	439,935
Total	**461,574**	**4,444**	**466,018**	**457,130**

Assets exposed to interest rate risk	Value as at 31 March £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
As at 31 March 2020				
Cash and cash equivalents	9,692	0	9,692	9,692
Cash balances	397	0	397	397
Bonds	410,876	4,109	414,985	406,767
Total	**420,965**	**4,109**	**425,074**	**416,856**

During 2020/21 the Fund received £0.003m in interest from surplus pension fund revenue cash. This was either invested in call accounts which are classified as a variable rate investment or a fixed term deposit. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.026m. The impact of a 1% fall in interest rates would imply a negative interest rate and therefore it is assumed no interest would have been received or charged on these investments. In addition, the Fund earned £0.032m in interest on its loan to LGPS Central Ltd. The impact of a 1% change in interest rates would have increased or decreased interest earned on this loan by £0.007m

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investments assets not denominated in UK sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. An 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March £000	Potential market movement £000	Value on increase £000 10%	Value on decrease £000 10%
As at 31 March 2021				
Overseas Equities	303,977	30,398	334,375	273,579
Overseas Private Equity	180,438	18,044	198,482	162,394
Overseas Pooled Property	133	13	146	120
Overseas Infrastructure	69,301	6,930	76,231	62,371
Total change in assets available	**553,849**	**55,385**	**609,234**	**498,464**

Assets exposed to currency risk	Value as at 31 March £000	Potential market movement £000	Value on increase £000 11%	Value on decrease £000 11%
As at 31 March 2020				
Overseas Equities	209,188	20,919	230,107	188,269
Overseas Private Equity	119,887	11,989	131,876	107,898
Overseas Pooled Property	2,257	226	2,483	2,031
Overseas Infrastructure	76,961	7,696	84,657	69,265
Total	**408,293**	**40,830**	**449,123**	**367,463**

Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. All contributions due at 31 March 2021 and 31 March 2020 were received in the first two months of the financial year.

In January 2018 the Fund advanced a loan of £0.685m to LGPS Central asset pool on commercial rates, repayable in 2027. LGPS Central have not defaulted on any annual loan interest repayments to date. The credit risk at 31 March 2021 is therefore not considered to be significant and no credit loss adjustment has been made.

The Fund has set limits on the maximum sum placed on deposit with individual financial institutions.

The investment priorities for the management of the pension fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority’s creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund’s lending list is reviewed continuously in conjunction with the Administering Authority’s treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

The Pension Fund has had no experience of default or uncollectable deposits over the past five financial years.

Asset type	Rating	As at 31 March 2021 £000	As at 31 March 2020 £000
Handelsbanken Instant Access Account	AA	2,000	2,000
Nat West Instant Access Account	A+	1,500	0

Asset type	Rating	As at 31 March 2021 £000	As at 31 March 2020 £000
Total		3,500	2,000

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements at 31 March 2021 was £3.5m (31 March 2020 £2.0m).

The Fund has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2021 was £7.756m. The Fund does not have access to an overdraft facility.

Officers prepare a daily cash flow forecast to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the investment strategy.

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

The key elements of the funding policy are:
- To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where it considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (84% at the March 2016 valuation). This corresponded to a deficit of £132 million (2016 valuation was £278 million) at that time. Revised contributions set by the 2019 valuation were introduced in 2020/21 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 16.6% of pensionable pay (14.9% at the March 2016 valuation).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions	31 March 2019	31 March 2016
Discount rate	4.25% p.a.	4.55% p.a.
Assumed long term CPI inflation	2.4% p.a.	2.2% p.a.
Salary increases – long term	3.65% p.a.	3.7% p.a.
Salary increases – short term	No allowance	1% p.a. for 4 years
Pension increases in payment	2.4% p.a	2.2% p.a

The assumed life expectancy from age 65 is as follows:

Demographic assumptions		31 March 2019	31 March 2016
Current pensioners (at age 65)	Males	22.8	22.9
	Females	24.9	26.1
Future pensioners (assumed current age 45)	Males	24.1	25.1
	Females	26.6	28.4

It is assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement.

18. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2021. An analysis of debtors outstanding as at 31 March 2021 is shown below:

	2020/21 £000	2019/20 £000
Contributions due - employees	1,260	1,186
Contributions due - employers	3,062	4,019
Other entities and individuals	2,443	1,708
Total	**6,765**	**6,913**

19. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2021. An analysis of creditors outstanding as at 31 March 2021 is shown below:

	2020/21 £000	2019/20 £000

	2020/21 £000	2019/20 £000
Central Government bodies	(670)	(615)
Other Local Authorities	(1,441)	(1,309)
Other entities and individuals	(1,278)	(986)
Total	**(3,389)**	**(2,910)**

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Scheme members have the option to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 498 scheme members with AVC policies. These policies are held either by Utmost or Prudential.

During 2020/21 contributions to schemes amounted to £0.611m. The combined value of the AVC funds as at 31 March 2021 was £4.916m.

There is a delay nationally in the issue of Prudential year end statements and therefore figures for contributions paid and value of Prudential AVC funds as at 31st March 2021 included above are estimated.

21. RELATED PARTY TRANSACTIONS

Shropshire Council

The Shropshire County Pension Fund is administered by Shropshire Council. Shropshire Council incurred costs of £1.475m (2019/20 £1.339m) in relation to the administration and management of the Fund and all these costs were recharged to the Pension Fund.

Shropshire Council is also the single largest employer of members of the Pension Fund. At the year end, a balance of £1.421m was due to the Fund from the Council relating to contributions which became due in March but were paid in April and other payments due.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Director of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Under the Local Government Pension Scheme 1997 Regulations, Councillors were entitled to join the scheme. Legislation which came into force on 1 April 2014 meant the LGPS was only available to councillors and elected mayors of an English County Council or District Council who elected to join before 31 March 2014. From 1 April 2014 access to the LGPS for councillors was removed and those councillor members who were in the Scheme on the 31 March 2014 could only remain in the Scheme until the end of their current term of office. The remaining active councillor members were removed from the Scheme in May 2017 at the end of their individual office. All councillor members who sit on the Pension Fund Committee who joined the LGPS before 31 March 2014 are now either deferred or pensioner members of the Fund.

LGPS Central

LGPS Central (LGPSC) has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPSC Pool.

The Fund invested £1.315m in share capital and £0.685m in a loan to LGPSC in 2017/18. These remain the balances at 31 March 2021. The Fund was owed interest of £0.032m on the loan to LGPSC at 31 March 2021.

In addition, in March 2019, the Fund invested in the LGPSC Global Equity sub-fund. The Fund incurred direct costs totalling £1.294m in respect of this investment of which £0.007 was payable to LGPSC at 31 March 2021.

The Fund incurred costs totalling £0.562m in respect of Governance, Operator Running and Product Development in connection with LGPSC in 2020/21 of which £0.105m was payable to LGPSC at 31 March 2021.

21.a KEY MANAGEMENT PERSONNEL

The posts of Executive Director of Resources (s151 Officer and Scheme Administrator) and Head of Treasury and Pensions are deemed to be key management personnel with regards to the fund. The financial value of their relationship with the fund (in accordance with IAS24) is set out below:

	2020/21 £000	2019/20 £000
Short-term benefits*	111	108
Post employment benefits**	47	63
Total	**158**	**171**

* This is the Pension Fund's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

** This is the change in value of accrued pension benefits, expressed as cash equivalent transfer value

22. CONTRACTUAL COMMITMENTS

The Fund has a 6% (£131 million) strategic asset allocation to Private Equity, and a 6.5% (£142 million) strategic asset allocation to Infrastructure. It is necessary to over commit the strategic asset allocation because some private equity and infrastructure investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2021 £267m has been committed to investment in private equity via a fund of funds manager, HarbourVest Partners. Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2021 the fund's Private Equity investments totalled £180.438m.

As at 31 March 2021 £127m has been committed to investment in Infrastructure via Global Infrastructure Partners. Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2021 the fund's Infrastructure investments totalled £69.301m.

The revised strategic asset allocation has only just been agreed by committee and this is the reason why the amount committed to investment in infrastructure is lower than the estimate based on strategic asset allocation.

23. CONTINGENT ASSETS

12 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

24. VALUE ADDED TAX

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

25. CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodian's own assets.

26. FUND AUDITORS

Grant Thornton has completed its audit in accordance with the Local Audit and Accountability Act 2014 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

27. PENSION FUND BANK ACCOUNT

Since April 2010 all income received for the Pension Fund has been paid into a separate pension fund bank account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2021 £3.5 million was invested. The cash balance in the Pension Fund account as at the same date was £0.245m.

28. FUND STRUCTURE UPDATE

In September 2017, an equity protection strategy was implemented with Legal & General, one of the Fund's existing managers. The strategy is currently being used to reduce equity risk while the Fund considers making allocations to other investments with £280 million of equities being protected at this time. The equity protection strategy was increased during 2018/19 to £580 million for a further period of 12-18 months expiring in 2020. This was funded by reducing the Fund's active global equity allocation. During March 2020, due to the fall in equity markets due to the global pandemic, a further £70 million of equity protection was implemented with Legal and General which expires in June 2021. Due to the strong bounce back in equity markets during 2020/21, a decision was made to reduce the options expiring in December 2020 from £300 million to £215 million and to just protect US equities where valuations were still very high. In May 2021, the £140 million options expiring in June 2021 were terminated again because of the strong bounce back in equity markets and because of the approval of the revised strategic asset allocations in March 2021. The remaining equity protection expires in September & December 2021 and a decision will be made later in the year on these.

In March 2019, the first assets transferred from the Shropshire Fund to LGPS Central, the mandates with MFS, Harris & Investec were terminated and funds of £237 million transitioned into the active global equity sub-fund with LGPS Central. The value of these assets as at 31 March 2021 was £318 million. Further assets are expected to transfer during 2021/22 when new funds are launched, these include Infrastructure, targeted return, private debt, private equity and sustainable equities.

In May 2020, the Fund committed to the next HarbourVest fund, HIPEP Fund IX. The total Fund commitment over the life of HIPEP IX is $20 million. The fund is still in the early capital commitment stage and no funds have been drawn down to date.

During the financial year, the Fund invested $5 million into the new Global Infrastructure Partners IV fund. The total Fund commitment over the life of GIP IV is $75 million.

In May 2020, following agreement with the Chair and Scheme Administrator a redemption request was submitted to PIMCO. Funds from the PIMCO PARS IV fund were repaid in full and invested in the PIMCO Global Libor Plus Bond Fund in October 2020.

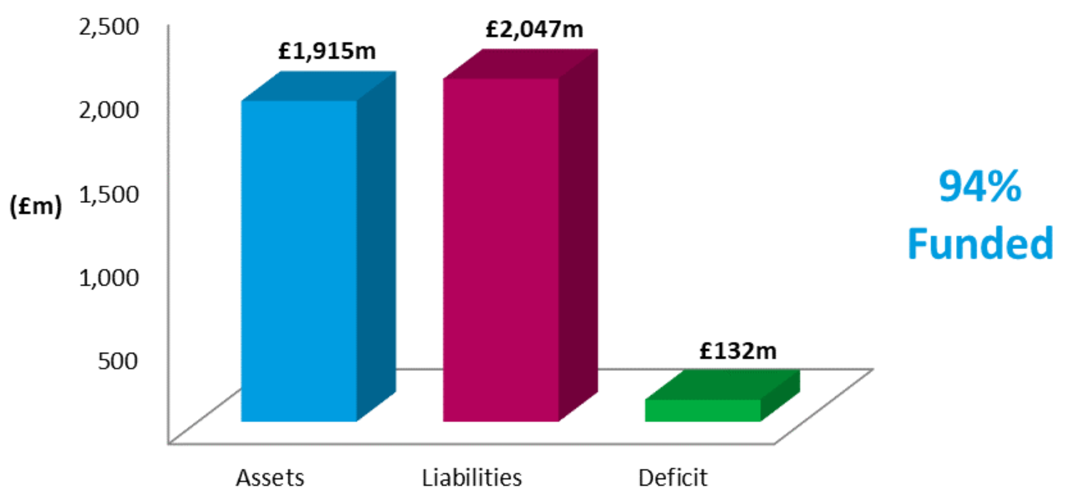
SHROPSHIRE COUNTY PENSION FUND

Accounts for the year ended 31 March 2021
Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,915 million represented 94% of the Fund's past service liabilities of £2,047 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £132 million.



The valuation also showed that a Primary contribution rate of 16.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 19 years, and the total initial recovery payment (the "Secondary rate" for 2021-2022) is an addition of approximately £10m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.25% per annum	4.65% per annum
Rate of pay increases (long term)	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022, following which the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014 .

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment (other than where the employer has elected to include a provision in their contributions, in which case this is included within the secondary rate). At the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £12 million and an increase in the Primary Contribution rate of 0.8% of Pensionable Pay per annum.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but the Administering Authority is consulting on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases	3.35% per annum	3.95% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020. During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £2,922 million including the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by c£69 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£9 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £408 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £3,408 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

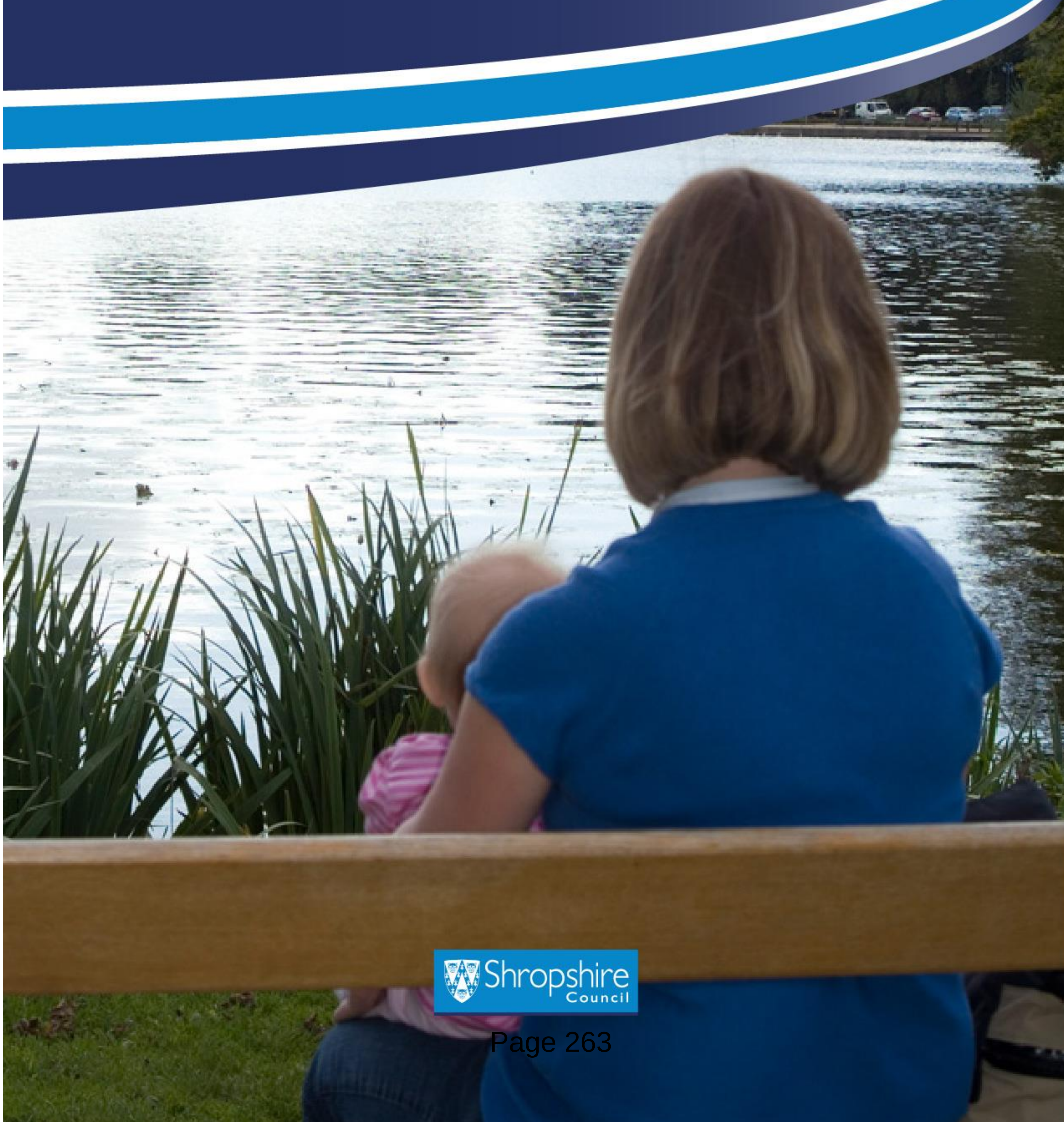
Michelle Doman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2021

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Independent auditor's report to the members of Shropshire Council on the pension fund financial statements of Shropshire Pension Fund – Report awaited

Section 10

Glossary



Shropshire Council

Glossary

Accountable Body	An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds.
Accounting Concepts	The basis on which an organisation's financial statements are based to ensure that those statements 'present fairly' the financial position and transactions of that organisation. Accounting concepts include 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements'.
Accounting Policies	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
Accumulated Absences Account	The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.
Accruals	The accruals accounting concept requires the non-cash effect of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
Actuarial Basis	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
Actuarial Gain	This may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).
Actuarial Loss	These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Glossary

Adjusted Capital Financing Requirement	The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A.
Adjustment A	The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed.
Appropriation	The transfer of sums to and from reserves, provisions and balances.
Assets	These are economic resources that can include anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value.
Associated Company	An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.). The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence.
Balances	Amounts set aside to meet future expenditure but not set aside for a specific purpose.
Balance Sheet	The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non-current assets held.
Below the Line Items	Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and IAS19 pension costs.
Bonds	Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.

Glossary

Borrowing	Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council.
Budget	The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy.
Budget Strategy	A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities.
Cabinet	The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision-making powers are set out in the Council's Constitution.
Capital Adjustment Account	The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Capital Expenditure	Expenditure on items that have a life of more than one year, such as buildings, land, major equipment.
Capital Financing Requirement (CFR)	This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. non-current assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision.

Capital Grants Unapplied	The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
Capital Receipts	The proceeds from the sale of non-current assets such as land and buildings. These sums can be used to finance new capital expenditure.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capitalised Expenditure	Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account.
Cash Equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash Flow Statement	The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
Code of Practice on Local Authority Accounting (Code)	A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.
Collection Fund	A separate statutory fund which records Council Tax and Non-Domestic Rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), NDR distribution to Central Government and the billing Council's own General Fund.

Collection Fund Adjustment Account	The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Comprehensive Income and Expenditure Statement	This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
Constitution	The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people.
Contingent Liability	Potential costs that the Council may incur in the future because of something that happened in the past.
Corporate Bonds	Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.
Council	The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.
Council Tax	A local taxation that is levied on dwellings within the local Council area. The actual level of taxation is based on the capital value of the property, which is split into 8 bands from A to H, and the number of people living in the dwelling.
Council Tax Base	To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure.

Council Tax Precept	The amount of income due to the Council in respect of the total Council Tax collected.
Credit	A credit represents income to an account.
Credit Ceiling	A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing.
Creditors	Represents the amount that the Council owes other parties.
Debit	A debit represents expenditure against an account.
Debt Charges	This represents the interest payable on outstanding debt.
Debtors	Represents the amounts owed to the Council.
Dedicated Schools Grant (DSG)	A specific grant paid to Local Authorities to fund the cost of running its schools.
Dedicated Schools Grant (DSG) Adjustment Account	The Dedicated Schools Grant (DSG) Adjustment Account holds any DSG deficit separately from the Council's General Fund.
Deferred Capital Receipts Reserve	The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts.
Deficit	Arises when expenditure exceeds income or when expenditure exceeds available budget.
Depreciation	The accounting term used to describe the charge made representing the cost of using tangible non-current assets. The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time.
Direct Revenue Financing	The cost of capital projects that is charged against revenue budgets.

Equities	Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.
Estimation Techniques	The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.
Exceptional Item	Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.
Financial Instruments	Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Council, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees.
Financial Instruments Adjustment Account	The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.
Fixed Interest Securities	Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Futures	A contract made to purchase or sell an asset at an agreed price on a specified future date.
General Fund Balance	The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year.
Going Concern	The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.
Group Accounts	Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.
Hedge Funds	An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.
Heritage Assets	These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture.
Housing Revenue Account	The Housing Revenue Account reflects the statutory obligation to maintain a revenue account for the local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. This account includes the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy.

Glossary

Impairment	Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset.
Index Linked Securities	Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges.
Inflow	This represents cash coming into the Council.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements.
Investments	An asset which is purchased with a view to making money by providing income, capital appreciation or both.
Joint Venture	An organisation in which the Council is involved where decisions require the consent of all participants.
JPUT	A Jersey Property Unit Trust is a specific type of Jersey Trust which is commonly used to acquire and hold interest in UK real estate. The assets of the JPUT are held by its trustees on trust for the unitholders of the JPUT.
LDI	Liability driven investment (LDI) strategies aim to enable pension funds to reduce risk and improve funding levels by reducing volatility over time. Because the value of future pension payments is directly linked to inflation, interest rates and the longevity of Fund members, Funds have sought investments linked to such factors.
Leases	A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system.

Liabilities	An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Liquid Resources	These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days.
Major Repairs Reserve	The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end.
Managed Funds	A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.
Materiality	Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).
Movement in Reserves Statement	This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.
Non Domestic Rates (NDR)	Taxation that is levied on business properties. This is collected by billing authorities and then distributed to preceptors and Central Government.
Net Book Value	The amount at which non-current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.
Net Expenditure	The actual cost of a service to an organisation after taking account of all income charged for services provided.

Net Cost of Service	The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to non-current assets.
Non-Current Assets	Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.
Operating Lease	A lease where the asset concerned is returned to the lessor at the end of the period of the lease.
Outflow	This represents cash going out of the Council.
Outturn	Actual expenditure within a particular year. In the Explanatory Foreword this expenditure is stated before taking into account Depreciation and other Below the Line Items.
Pension Reserve	The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
Post Balance Sheet Event	Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.
Precept	The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor.
Primacy of Legislation	The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply.

Prior Period Adjustments	These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.
Private Finance Initiative (PFI)	A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.
PFI Credits	The financial support provided to Local Authorities to part fund PFI capital projects.
Provisions	Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.
Prudential Borrowing	The amount of borrowing undertaken by the Council to fund capital expenditure, in line with affordable levels calculated under the Prudential Code.
Prudential Code	The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis.
Public Works Loans Board (PWLB)	A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.
Public Sector Bonds	Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges.

Revaluation Reserve	The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised. The Reserve contains only revaluation gains accumulated since April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.
Revenue Expenditure	Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance.
Revenue Expenditure Funded By Capital Under Statute	Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of non-current assets.
Revenue Support Grant (RSG)	An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering.
Reserves	Sums are set aside in reserves for specific future purposes rather than to fund past events.
Service Reporting Code of Practice (SERCOP)	Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities.
Soft Loan	This is a loan which is provided with a below-market rate of interest.
Specific Grant	A grant awarded to a Council for a specific purpose or service that cannot be spent on anything else.
Subsidiary	An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.)
Surplus	Arises when income exceeds expenditure or when expenditure is less than available budget.

Trading Service/Organisation	A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.
Treasury Strategy	A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year.
Unit Trusts	A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.
Unquoted Equity Investment	Investments in unquoted securities such as shares, debentures or unit trusts which are not quoted or traded on a stock market.
Usable Capital Receipts Reserve	Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects.
Usable Reserves	Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot.
Variation	The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Virement	The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution.

Draft Statement of Accounts
2020-2021

Contact us on 0345 678 9000
Email: enquiries@shropshire.gov.uk
Or visit: www.shropshire.gov.uk

Our address is:
Shropshire Council
Shirehall, Abbey Foregate,
Shrewsbury,
Shropshire SY2 6ND

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Shropshire Council

The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2021

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Agenda Item 11

Contents

Your key Grant Thornton team members are:

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Grant Patterson
Key Audit Partner
E Grant.b.Patterson@uk.gt.com

Terry Tobin
Senior Audit Manager
E Terry.p.tobin@uk.gt.com

Elliot Baker
Audit In charge
E Elliot.a..baker@uk.gt.com

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Under the Council's governance arrangements the Audit Committee are determined to be 'Those Charged with Governance' but we have determined to communicate with the Pensions Committee given its role in oversight of the production of the Pension Fund Annual Report (including the financial statements).

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We received the Pension Fund's draft Annual Report, including the draft accounts, on 5 July 2021. The receipt of the draft Annual Report is ahead of many other pension funds and was before the Council published its Statement of Accounts, which include the pension fund accounts, on 31 July 2021.

Our audit work was completed remotely during June to August. Our findings are summarised on pages 4 to 14. We have identified one adjustment to the financial statements included within the draft Annual Report received on 5 July 2021 that resulted in a £45 million adjustment to the Pension Fund's Fund Account and Net Asset Statement balances at 31 March 2021. This amendment was processed within the Council's Statement of Accounts before they were published on 31 July 2021.

Audit adjustments are detailed in Appendix B. We set out a recommendation in relation to this in Appendix A.

Our work is now substantially complete and there are no matters of which we are aware that would require modification of our audit opinions [Appendix D) or further material changes to the financial statements, subject to the following outstanding matters:

- receipt of a signed management representation letter; and
- review of the final set of financial statements and Annual Report.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We have identified:

- £6.8m of valuation differences between the accounts and final fund manager statements (pages 9 and 19) and,
- a £1.6m extrapolated uncertainty in respect of benefit payments (page 19).

The sums are not material individually or in aggregate. Management are proposing not to adjust for the valuation differences on the basis that they do not materially affect the financial statements. The extrapolated uncertainty cannot be adjusted for and is also not material.

The Audit Committee will be asked to confirm its agreement with management's proposal not to adjust through the Letter of Representation. The Pensions Committee is asked to confirm its agreement as part of its reporting to the Audit Committee.

In addition, we identified some changes to disclosure notes and in particular the fair value basis of valuation at note 14 where this was amended to better describe the basis of valuation of some funds and also change the fair value category for some funds (with some pooled funds changing from Level 1 to Level 2)

Our anticipated audit report opinion at this stage will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you in June 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing unqualified audit opinions on the financial statements and the Annual Report following the Pensions and Audit Committee meetings in September 2021, as detailed in Appendix D. These outstanding items include:

- receipt of a signed management representation letter; and,
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the good assistance provided by the Treasury and Pension Team staff. The impact of the pandemic has meant that both your team and our audit team faced audit challenges again this year and both teams have had to operate virtually.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Pension Fund.

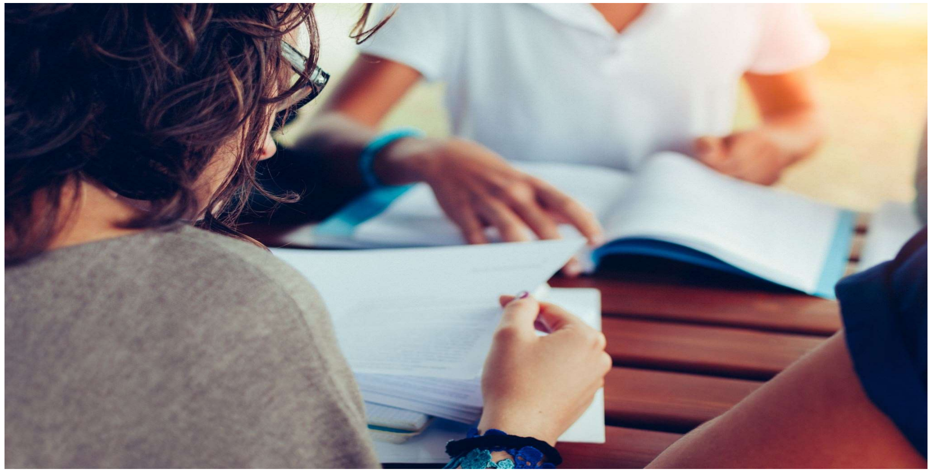
	Amount (£)	Qualitative factors considered
Materiality for the financial statements	20m	We determined materiality for the audit of the Fund's financial statements as a whole to be £20m, which is approximately 1% of the Fund's net assets as at 31 March 2021. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of its assets.
Performance materiality	15m	We have determined £15m (75% of materiality) to be an appropriate level for Performance Materiality. The Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	1m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Committee

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of assets and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement	We : - evaluated the design effectiveness of management controls over journals; - analysed the journals listing and determined the criteria for selecting high risk unusual journals; - tested high risk and unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any significant issues in respect of revenue recognition.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because: - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including the administering authority for the Fund, Shropshire Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Shropshire Pension Fund. There are no changes to our assessment reported in the audit plan. Our audit work has not identified any issues in respect of revenue recognition.
Valuation of Level 3 investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature required significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We : • Evaluated management's processes for valuing Level 3 investments • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure that the requirements of the Code are met; • Independently requested year-end confirmations from investment managers, with an additional focus on ensuring use of appropriate International Private Equity and Venture Capital Valuation (or equivalent) methodology in their valuation books, updated for most recent available guidance in relation to Covid-19; • For a sample of investments, tested the valuation by comparing the valuation per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjustment for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Managers and, where available, latest audited financial statements; • Analysed the Fund's holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or economic impact of Brexit. Our work identified that the actual value as at 31 March 2021 for the HarbourVest private equity fund had risen by £45 million from that estimated in the accounts. The final capital statement was not available when the pension fund accounts presented for audit were closed down. This amendment was processed within the Council's Statement of Accounts before they were published on 31 July 2021.

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2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	The Pension Fund has investments in unquoted investments and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £364m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in.	Management determine the value of Level 3 Investments through placing reliance on the expertise of the investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of Level 3 investments to audited accounts and final capital statements to determine if the values estimated are reasonable. Please see our findings on page 7 where we identified a material (£45m) change in the final value of a private equity fund from the estimated value in the accounts..	Purple

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments	The Pension Fund has investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £162m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought independent confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value Level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. As in previous years the Fund estimated the year end value of Global Infrastructure Partners and Aberdeen Property Investors as the final 31 March statements are not received when closing accounts down. As set out in Appendix B we have identified valuation differences between the accounts and that shown on 31 March 2021 fund capital statements. In many cases this was due to timing differences in estimated and actual values. Fund manager statements were £6.8m higher in value than that shown in the accounts. The difference is significantly below our materiality and management have determined not to adjust for it. We have found no other issues with this testing and are satisfied that the estimate is appropriately disclosed in the accounts.	Light Purple

Assessment

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

2. Financial Statements - other communication requirements

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

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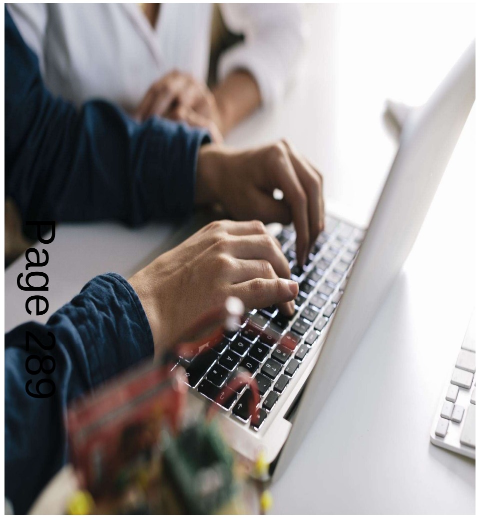
Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. We have received confirmations from managers.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Some adjustments were made to disclosures as set out in Appendix B.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

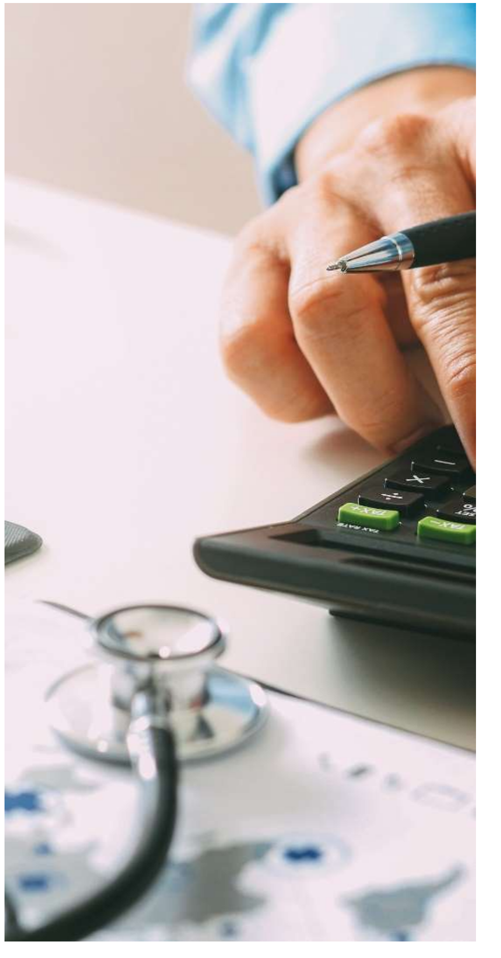
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified/Inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report shortly.



3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related	none		
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	5,000 (2020/21) and 3,000 (2019/20)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work was £3,000 (in 2019/20) in comparison to the total fee for the audit of £30,289 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

Appendices

A. Action plan – Audit of Financial Statements

We have identified a recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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Assessment	Issue and risk	Recommendations
● Medium	There was a difference between the estimated value of the HarbourVest private equity fund and the actual value included in the final capital statement of £45 million. The estimate had been based on a roll forward from the 30 September 2020 capital statement. After we raised this, an amendment was processed within the Council's Statement of Accounts before they were published on 31 July 2021.	Explore ways to improve estimation techniques to enhance the accuracy of the valuation of fund assets in the accounts in future years. **Management response** The draft accounts are prepared in early June in order to meet the Council's closedown timetable. The latest Harbourvest valuations available at that date are the September valuations. The March valuations are not received by the Fund until mid-July. When they were received this year, due to the large increase in value of £45m which is very positive news for the Fund, the accounts were updated to reflect the updated position before they were presented to Audit Committee and signed off by the Executive Director of Resources at the end of July as part of the Council's Statement of Accounts. Fund Officers have asked Harbourvest if valuations can be provided any earlier in future years but this is unachievable. There is always a difference between estimates and actuals at the year-end but this year the increase was higher than normal due to the strong bounce back in equity markets following the global pandemic.

Controls

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

B. Audit Adjustments

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

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Pension Fund Account £	Net Asset Statement £	Impact on total net assets £
Increase in valuation of HarbourVest private equity fund to reflect actual 31 March 2021 valuation.	45m	45m	45m
Overall impact	45m	45m	45m

Misclassification and disclosure changes

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

Disclosure omission	Adjusted?
Note 14 fair value-basis of valuation. This was amended to better describe the basis of valuation of some funds and also change the fair value category for some funds (with some pooled funds changing from Level 1 to Level 2)	✓
Note 4 critical judgements in applying accounting policies . This note was revised to reduce judgements to only those critical to the accounts.	✓
The Annual Report was amended to include external audit fees payable for 2020/21.	✓
There were a few other minor amendments were made to correct typing and rounding errors and the format of statements	✓

B. Audit Adjustments

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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Total remaining differences between value of investment assets shown in the accounts and that shown on 31 March 2021 fund capital statements. In many cases this was due to timing differences in estimated and actual values. Fund manager statements were £6.8m higher in value than that shown in the accounts.	6,800	6,800	6,800	Not material.
We were unable to completely verify three benefit calculations due to the additional evidence being stored on microfiche at Shire Hall and officers not having access to this currently. The value of these elements of the payments was extrapolated to demonstrate the error was not material to the accounts. The total extrapolated value of reduction is shown here.	1,624	1,624	1,624	Based on extrapolation which was not material

C. Fees

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

		Proposed Fee 2020/21	Final Fee 2020/21
Shropshire Pension Fund Audit PSAA Scale Fee		£18,039	£18,039
Raising the Bar/Regulatory Factors	£2,800		
Valuation of Level 3 Investments	£1,450		
On-going 2019/20 Fee Variation		£4,250	£4,250
Impact of ISA 540 on PSAA Scale Fee		£6,000	£6,000
Impact of ISA 240/700 on PSAA Scale Fee		£2,000	£2,000
Total audit fees for Pension Fund Audit (excluding VAT)		£30,289	£30,289

Per Note 7 to the Pension Fund accounts the narrative note explains the difference between the £22k within the financial statements and the audit fee proposed. Non-audit fees are recharged to employers and not separately disclosed.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	0	0
Other [IAS19 letters to auditors in 2020/21]	£5,000	£5,000
Total non-audit fees (excluding VAT)	£5,000	£5,000

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

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

Opinion

We have audited the financial statements of Shropshire County Pension Fund (the 'Pension Fund') administered by Shropshire Council (the 'Authority') for the year ended 31 March 2021 which comprise the Pension Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

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In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

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The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Executive Director of Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Pensions Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Pensions Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

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- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:

  - journal entries posted by senior officers, with no description and post year end;

  - the valuation of level 3 investments
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
  - journal entry testing;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition,
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

Use of our report

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

[Signature]

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

Birmingham

September 2021

D. Audit opinion

Our audit opinion on consistency of pension fund accounts in the Council's financial statements is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Shropshire Council on the consistency of the pension fund financial statements of Shropshire County Pension Fund included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of Shropshire County Pension Fund (the 'pension fund') administered by Shropshire Council (the "Authority") for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the "Statement of Accounts").

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In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated

Executive Director of Resources' responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Executive Director of Resources of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 20120/21.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Birmingham

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Committee and Date	Item
Audit Committee 16th September 2021 10:00am Council 23rd September 2021	 Public

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Responsible Officer James Walton
e-mail: James.walton@shropshire.gov.uk Telephone: 01743 258915

1 Synopsis

1.1 Audit Committee are asked to consider and propose the most efficient and effective way of procuring an External Auditor from April 2023, to Council for their consideration and final decision.

1.2 The Council has been asked by the PSAA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The SLB approach offers best value to councils by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

2 Executive Summary

2.1 On the 21st July 2016, Council agreed with the Audit Committee's proposal that Shropshire Council support the Local Government Association (LGA) in setting up a National Sector Led Body to appoint external auditors. A formal decision from Council to "opt-in" to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements was then made on the 15th December 2016. The Council elected to remain in the appointment arrangements for a period of five years, commencing 1 April 2018. The PSAA is looking to procure future contracts and the Council is again being asked if they wish to procure the external auditor through this arrangement.

2.2 There are three options open to the Council; purchasing through the Sector Led Body (SLB), the PSAA; making a standalone appointment; or an appointment jointly with other procurement partners. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2022. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. The Council is asked to consider whether it is interested in the option of opting in to the SLB, the PSAA for a further period, or wishes to seek an alternative approach.

3 Recommendations

Audit Committee:

3.1. Members are requested to consider their preferred approach of the options set out below and provide Council with their comments on these:
a) Using the Sector Led Body, the PSAA by indicating an option to "opt-in"
b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

The recommendation is that option a is selected.

Council:

3.2 The relevant option chosen by Audit Committee will be inserted here and the Council will be asked to consider and endorse their preferred approach. A further report will be brought to Council on this, including details of any costs that will need to be included in the budgets.

REPORT

4 Risk Assessment and Opportunities Appraisal

4.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including the requirement for the authority to consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that, where a relevant authority is a local authority operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority.

4.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

4.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been applied in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

4.4 The Secretary of State has enabled PSAA Ltd to be an appointing person for local auditors under a national scheme.

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

5 Financial Implications

5.1 Existing external fee levels are to increase when the current contracts end. The Council's annual external audit fees for the 2020/21 audit were c£167,000.

5.2 Opting-in to a national Sector Led Body (SLB) provides maximum opportunity to limit the extent of any increases by entering a large-scale collective procurement arrangement and remove the costs of establishing an auditor panel. There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA[1] believes that audit fees achieved through block contracts will be lower than the costs that individual authorities would be able to negotiate. In addition, by using the SLB, councils will avoid having to undertake their own procurement and the legal requirement to set up a panel of independent members.

5.3 PSAA Ltd commit to ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under the articles of association and memorandum of understanding with the Department for Communities and Local Government and the LGA.

5.4 PSAA Ltd expect annual operating costs to be lower than current costs because they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of their current deferred income. This is considered appropriate because the new scheme will be available to all relevant principal local government bodies.

5.5 Contracts are likely to be awarded at the end of June 2022 and, at this point, the overall cost and therefore the level of fees required will be clear. They will consult on the proposed scale of fees in autumn 2022 and publish the fees applicable for 2023/24 in March 2023.

6 Climate Change Appraisal

6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. Therefore, minimal if no effect. Purchasing through one body may reduce travel for procurement shortlisting interviews and discussions where completed in person.

7 Background

7.1 On the 21st July 2016, Council agreed with the Audit Committee's proposal that Shropshire Council support the Local Government

[1] Local Government Association

Association (LGA) in setting up a National Sector Led Body to appoint external auditors. This was done and a formal decision from Council to "opt-in" to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements was then made on the 15th December 2016. The Council elected to remain in the appointment arrangements for a period of five years, commencing 1 April 2018. The Council's current external auditor under this arrangement is Grant Thornton.

7.2 More recently it has been confirmed that the PSAA will continue as the appointing Person for the next appointment. During the present contract period there have been some big issues affecting local government audit:

- The audit industry is under heavy scrutiny.
- There is great regulatory pressure to improve audit quality.
- Audit resources are stretched, and other factors cause delay.
- Delayed local audit opinions are a huge unresolved concern.
- Local government audit's focus is being questioned.
- Additional work means additional fees are needed.
- Regulations need updating.

7.3 The PSAA scheme aims to secure the delivery of an audit service of the required quality for every opted in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services. PSAA plan to provide:

- transparent and independent auditor appointment;
- ongoing management of any independence issues;
- proportionate PSAA costs and redistribution of any surpluses;
- independent scrutiny of every additional fee proposal;
- a sector led collaborative scheme as the way to get the best deal for the sector;
- dedicated, experienced team;
- key updates to all Section 151 officers and Audit Committee Chairs;
- avoid the need to establish an auditor panel and undertake an auditor procurement;
- same auditor appointment to significant collaborations or joint working initiatives.

7.4 The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure. A dynamic purchasing system will be ran in parallel to provide an option for some or all subsequent auditor appointments and there will be between seven and ten contract lots; sizes to be determined but the largest being c20 to 25% of the market to reflect a balance of geography and blend of authority types.

7.5 Procurements will adopt 80% quality, 20% price weighting; attach a 4% evaluation weighting to social value; assess quality and support market sustainability.

7.6 The drive for audit quality has resulted in auditors needing more assurance, and the additional work has driven higher fees in line with the statutory framework. Although fees have increased, the PSAA are concerned that some of the lowest fees may be insufficient to deliver a Code of Audit Practice compliant audit. Realistic fee levels are a vital requirement for supporting market sustainability, and so they are considering introducing a minimum scale fee to ensure that the actual costs are covered at all audits. It is anticipated that the introduction of a minimum fee would impact a relatively small number of audits.

7.7 Indicative timescales for the process are as follows:

8th July 2021	Consultation on the draft prospectus will close
July to August 2021	PSAA Board will consider all feedback to finalise prospectus and procurement strategy
September 2021	Eligible bodies will be invited to join PSAA's national scheme (will require a decision by Full Council, or equivalent decision maker)
January 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in
February 2022	Procurement will commence
June 2022	PSAA Board will award new contracts where possible and determine if there is a need to extend current ones to enable PSAA to meet its statutory duty to appoint to all opted in bodies
December 2022	PSAA Board will confirm auditor appointments for 2023/24

7.8 Procurement via the PSAA is the recommended approach but there are two other options available to the Council.

Option one: To make a standalone appointment

7.9 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

7.10 Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision, although this local input will be completely independent of the Council.

Disadvantages/risks

7.11 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract was estimated in 2016, by the LGA to cost in the order of £15,000 plus on-going expenses and allowances, it is probably higher now.

7.12 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

7.13 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2: Set up a Joint Auditor Panel/ local joint procurement arrangements

7.14 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly, or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

7.15 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.

7.16 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

7.17 Depending on the constitution agreed with the other bodies involved, the opportunity for local input to the decision-making body will be limited. This could be only one elected member representing each Council or, potentially, no input from elected members where a wholly independent auditor panel is used.

7.18 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently, or is currently, carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted with this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible

8 Conclusion

8.1 The Council will need to take action to implement arrangements for the appointment of external auditors from April 2023. In order that more detailed proposals can be developed, the Council/Committee is asked to consider the preferred approach.

8.2 The Council has been asked by the PSAA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The SLB approach offers best value to councils by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/ https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/market-engagement-june-2021/ 15 December 2016 Council - Changes to the arrangements for appointment of External Auditors 24 November 2016 Audit Committee – Changes to the arrangements for appointment of External Auditors 21 July 2016 Council - Changes to the arrangements for appointment of External Auditors 23 June 2016 Audit Committee - Changes to the arrangements for appointment of External Auditors
Cabinet Member (Portfolio Holder) Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee
Local Member: All
Appendices: None

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By virtue of paragraph(s) 5 of Part 1 of Schedule 12A
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