

**Committee and Date**

Council

11th December 2025

Item

Public



External Auditor's Annual Report – Response to Statutory Recommendation

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Cabinet Member (Portfolio Holder):	Heather Kidd	

1. Synopsis

The Council's external auditors, Grant Thornton, have issued their Annual Report ("AAR") for 2024/25. This highlights Shropshire Council's financial challenges and makes one statutory and three key recommendations focussing on financial resilience. The Audit and Governance Committee noted the seriousness of the recommendations and have referred the AAR to full Council for its consideration and response to the Statutory Recommendation.

2. Executive Summary

2.1. The AAR brings together a summary of the work undertaken by Grant Thornton during 2024/25. A key element of this report is the commentary provided by external audit on the Council's value for money (VfM) arrangements.

2.2. The AAR includes three key recommendations and one statutory recommendation. These are set out below:

SR1: The Council should:

- *Continue, at pace, the action taken to address the financial challenges it faces, including an immediate review of all services, both statutory and non-statutory,*

and identify the cost of minimum viable service provision to deliver its statutory responsibilities. This will enable the Council to understand the scale of its structural deficit between the cost of services and the income available to the Council. This action should give the Council an understanding of immediate decisions and savings that can be delivered, replicating actions that would be taken were the Council to issue a Section 114 Notice.

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

KR1: The Council should:

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

KR2: The Council should:

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

KR3: The Council should:

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

- 2.3. Management responses have already been provided to each of these recommendations and were reported to the Audit and Governance Committee, The response to the Statutory Recommendation is set out below:

The Council acknowledges the seriousness of the financial challenges it faces and is committed to taking decisive and sustained action to address them. A series of reports were considered by Cabinet on 3 December 2025 that will directly tackle the issues raised in this statutory recommendation. This will include:

- *Shropshire Council Improvement Plan – setting a roadmap over the next 18 months to improvement*
- *Medium Term Financial Strategy – creating the foundations for a move to a stabilised and, over the medium term, a sustainable budget.*
- *Capital Strategy – setting out the initial approach to bringing about a stabilised approach to capital investment.*
- *Pre-Budget Report – setting out the technical financial actions being taken to tackle the issue of s114 and how the MTFS, Capital Strategy, Treasury Strategy, Reserves Strategy and Exceptional Financial Support Strategy will work, in tandem with the Improvement Plan, to bring about financial stability.*
[NB This report was deferred at Cabinet]
- *Council is also due to approve the 2026/27 Budget and MTFS in February 2026 which will provide a direct response to this Statutory Recommendation.*

- 2.4. Whilst these are the immediate management responses, the Local Audit and Accountability Act 2014 requires the Council to consider the statutory recommendation and decide whether the recommendation is to be accepted, and what, if any, action to take in response.

- 2.5. The Auditor's Annual Report is attached at Appendix 1.

3. Recommendations

That Council:

- a) Acknowledge and accept the statutory recommendation made by the External Auditors
- b) Address the statutory recommendation through the immediate management response and actions set out in paragraphs 2.3 and 7.9 of this report together with the adoption and implementation of the Council's Improvement Plan and its programmes of action focussed on financial stability, strengthening financial management policy and practice and "Getting the Basics Right" (strengthening corporate governance)
- c) Agree that the Audit and Governance Committee receives updates on the progress of the Council in addressing the various elements of the Statutory Recommendation.
- d) Instruct the Chief Executive to write to the External Auditor with the outcome of the Council's consideration of this report.

Report

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

5.1 Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet on a monthly basis. Significant management action has been instigated at all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers and/or Portfolio Holders review the overall financial situation and make decisions aligned to financial survivability. All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):

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

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

6. Climate Change Appraisal

6.1 No issues identified directly within this report.

7. Background

7.1 Shropshire Council is facing severe and immediate financial sustainability challenges, with a reported overspend of £34.32 million in 2024/25 and a forecast overspend of £50.746million (as at Period 7) for 2025/26. The auditors highlight that weaknesses in budgeting and monitoring contributed to a significant deterioration in the Council's financial position, particularly between the final two periods of 2024/25. The Council risks exhausting its General Fund reserves and potentially entering an unlawful financial position.

7.2 The Council's External Auditors have responsibility to give an opinion on the Council's financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Authority's use of resources. They also have additional powers and duties under the Local Audit and Accountability Act 2014

('the Act'). These include powers to use a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and raise objections received in relation to the accounts. Grant Thornton have concluded that it is appropriate for us to use their powers to make written recommendations under Section 24 of the Act, due to the significant weaknesses identified in relation to the current financial position of the Council and the forecast outturn position for 2025/26 potentially putting the Council into an unlawful financial position. This includes a Statutory Recommendation.

- 7.3 A Statutory Recommendation is of key significance for the authority but is not unexpected given the Council's declaration of a Financial Emergency on 10 September 2025 and the continued reporting of a deteriorating financial position in Period 5 and Quarter 2 Financial Monitors in October and November. Much of the work to resolve the issues is already being taken forward by the Council, but this does not distract from the seriousness of this recommendation.
- 7.4 Having received a statutory recommendation, Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions: The Authority must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Authority. At the public meeting the Authority must decide:
- a) whether the report requires the authority to take any action or whether the recommendation is to be accepted, and
 - b) what, if any, action to take in response to the report or recommendation.
- 7.5 The AAR was initially presented to the meeting of Audit Committee on 27 November 2025 and the report was then referred to full Council. The proposed recommendations at section 3 fulfil the decision points identified in the previous paragraph.
- 7.6 The management response to the statutory recommendation sets out the work that the Council is currently undertaking to implement the Improvement Plan. It is hoped that that Council will endorse this Improvement Plan along with the related People Plan later in this agenda. The Statutory and Key Recommendations made within the AAR are specifically mentioned in Appendix 4 of the Improvement Plan and its programmes of action focussed on financial stability and strengthening financial management.
- 7.7 In the report, the Council is urged to address the financial challenges at pace, review the budget and Medium Term Financial Strategy (MTFS), and develop a plan to remove any reliance on Exceptional Financial Support beyond the medium term. Additional key recommendations focus on the overambition of savings plans and the growing Dedicated Schools Grant deficit, both of which threaten the Council's financial resilience.
- 7.8 The auditors also identify significant governance concerns, notably the sixth consecutive year of a "Limited Assurance" opinion from the Head of Internal Audit, indicating persistent weaknesses in the Council's internal control environment. The auditors note that a lack of urgency in addressing internal audit findings has contributed to the Council's financial difficulties. While the Council has made progress in some areas, such as strengthening governance around major projects

and establishing robust partnership working, urgent action is required to address the recommendations from the recent Local Government Association Corporate Peer Challenge (“LGACPC”) and to improve overall value for money arrangements. The Council began to address the LGACPC Recommendations as soon as it received the draft findings in July and the External Auditor has commended the Council's proactive steps, such as the formation of spending control boards and an Improvement Board, but stress that these measures must be accelerated and embedded to restore financial stability and effective governance. We acknowledge these concerns and have already started to address them through the actions set out in this report. More specifically the Council is addressing the Statutory Recommendation in the following ways:

- The Spend Control Board processes ensure that only essential spend is approved. Officers are constantly reminded through this and other processes that the Council should not be providing services which exceed our statutory/contractual responsibilities unless it delivers significant income or effective preventative measures to reduce our spend.
- The Budget Oversight and Spend Strategy (“BOSS”) meetings rigorously challenge budget holders to demonstrate that their forecasts and modelling are robust so as to address the optimism bias which has been acknowledged. This work will continue to ensure positive outcomes are realised throughout the remainder of 2025/26.
- The Improvement Plan will be supplemented by a delivery plan which will indeed set out how the Council intends to use any Exceptional Financial Support (“EFS”) approved by MHCLG so as to increase our financial resilience, acknowledging that EFS is only temporary in nature.
- The Internal Audit review of the 2024/25 outturn position resulted in six recommendations which have been accepted by officers and implementation of these is underway. During 2025/26 closer collaboration between ASC Service Managers and budget holders and Finance colleagues has resulted in an improved understanding of the end-to-end process, the challenges arising from data transfers between different systems and the resultant impact on accurately forecasting the year-end position. However continued work is necessary to enable both the budget holders and Finance team to have complete assurance of the basis of budget assumptions and the realisation of savings targets.

7.9 In addition, since being appointed as the Interim Chief Executive, I have taken the following actions to address some of the wider concerns being raised:

a. Senior Leadership Forum collaboration and discussions on their collective role, the role of the manager and governance responsibilities. These meetings are taking place weekly during October and November and provide all Service Managers the opportunity to be heard and actively shape the Council's direction of travel. Additional communications at Leadership Board covering FOI and outstanding audit recommendations on 6 November 2025 attended by Chief Audit Executive. The focus is on improving controls in addition to the implementation of overdue recommendations.

- b. All staff email sent 09 October 2025 regarding compliance with the Council's Constitution, policies and procedures. Specific reference was made to financial rules, contract procedure rules and information security policies.
- c. All staff email (CEO update) sent on 30 October 2025 reminding staff to prioritise overdue FOI responses within the "getting the basics right" section. This is attached as Appendix 2.
- d. Statutory Officers (i.e. Head of Paid Service, Section 151 Officer and Monitoring Officer) meetings have commenced with a focus on compliance and strengthening governance.
- e. Council is being asked to approve the Improvement Plan and 2025-2030 People Plan. This builds on feedback from the Staff Pulse survey, broader engagement sessions, best practice arrangements elsewhere and the CPC feedback. Initial actions will focus on culture, leadership and talent, capability and capacity, performance and systems and establishment. Key deliverables for these five areas will have a strong governance focus to develop and embed a strong assurance framework.
- f. An independently chaired Improvement Board has been established with its first full meeting taking place on 10 November 2025. This is a cross-party board, with an LGA recommended independent chair and will have oversight of the delivery of the Improvement Plan.
- g. A review of strategic risks, with an officer workshop on 18 November to develop this work further. This will be closely interlinked with the Improvement Plan and a key area of focus over the next 12-18 months.
- h. Management assurance on the implementation of internal audit recommendations. Positive progress has been made across the Council with an overall reduction from 181 overdue recommendations on 17 October to 26 as at 03 December. However at this stage this does not include internal audit testing of the implemented recommendations.
- i. Focus on clearing overdue FOI requests has seen the total number reduce from 88 as at 30 October to 23 as at 04 December. A clear timeline for clearing overdue requests and achieving full compliance with the legislation has been set out and shared with Leadership Board.
- j. Ongoing monitoring of overdue Internal Audit recommendations is covered in the statutory officers group meetings.
- k. There has been a focus on clearing MP enquiries with action taken to resolve those which were outstanding. These have now reduced to a manageable level.
- l. There has also been a review of all previous savings proposals, decision, transformation opportunities and level of service provision by the senior leadership team.

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

Financial Monitoring Reports to Cabinet through 2025/26

Financial Strategy – Council 27 February 2025

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

Local Member: n/a

Appendices

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

Appendix 2: All staff email 30th October 2025