Committee and Date
Audit & Governance Committee
25 September 2026

AUDIT & GOVERNANCE COMMITTEE

Minutes of the meeting held on 15 July 2026
In the Council Chamber, The Guildhall, Frankwell Quay, Shrewsbury, SY3 8HQ
10.00 - 11.20 am

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

Present
Councillor Sharon Ritchie-Simmons (Chairman)
Councillors Kate Halliday (Vice Chairman), Duncan Kerr, Malcolm Myles-Hook, Mark Owen, Duncan Borrowman, Nigel Lumby, Thomas Clayton and Greg Ebbs

21 Apologies for Absence / Notification of Substitutes

No apologies were received.

22 Disclosable Pecuniary Interests

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

23 Minutes of the previous meeting held on the 25 June 2026

RESOLVED:

That the Minutes of the meeting of the Audit & Governance Committee held on the 25 June 2026 be approved as a true record and signed by the Chairman.

24 Public Questions

A public question had been received from Mr Graham Layton. The Chair read the question, and the Head of Policy & Governance provided the response on behalf of the Committee.

A full copy of the question and response provided are attached to the web page for the meeting.

25 Member Questions

There were no questions from Members.

26 Second line assurance: Financial outturn report 2025/26

The Committee received the Financial Outturn report for the year 2025-26, presented by the Section 151 Officer. The report outlined an overspend of approximately £50 million for the financial year, primarily due to significant pressures in both adult and children's social care, as well as in corporate areas where savings projections had been overly optimistic and ultimately unachievable. The overspend was supported by exceptional financial support (EFS) from the government, totalling £60 million. It was indicated that EFS would also be required for 2026-27 and subsequent years.

The situation was described as disappointing, with reserves having been drawn down over several years, resulting in critically low levels. The general fund balance at the end of March 2026 stood at £5 million, significantly below the target of £35 million, which represents 7.5% of the net budget. The Medium Term Financial Plan (MTFP) sets out a plan to recover the general fund balance to £35 million over a period of three to four years, but this would necessitate borrowing, incurring debt financing costs of approximately 10% for every pound borrowed. Earmarked reserves for financial risks, such as economic downturns and demand pressures in social care, were equally low. Rebuilding these reserves would depend on windfall budget benefits, which are currently unlikely given the Council’s financial position.

A member raised concerns about the Council’s low reserves and the difficulty of rebuilding them given ongoing financial pressures, asking whether there was a plan to build up reserves and whether this would be prioritised amid competing financial demands. The Section 151 Officer responded by outlining the government’s encouragement for councils to reduce reserves in recent years, which was described as unwise for less well-funded authorities. The plan to recover the general fund balance to £35 million over three to four years was reiterated, acknowledging that this would require borrowing and associated debt financing costs. It was also explained that earmarked reserves would need to be reinforced, but there was no specific plan for achieving this due to the reliance on windfall benefits and the impact of EFS.

The Chair then asked about the unpredictability of care and wellbeing costs, specifically whether there was assurance regarding future forecasting and whether demographic modelling was being undertaken to mitigate shortfalls in future years. The Section 151 Officer explained that the £50 million variation was not strictly an overspend but rather an adverse variation based on unrealistic budgets. Structural deficits in adult social care were cited, where growth in demand had not been reflected in the budget, resulting in the service starting the year with a deficit.

It was stated that the 2026-27 budget would be a year of stabilisation, with growth, inflation, and pay now factored in, providing greater confidence in managing the budget. The importance of forecasting for future growth and managing price pressures was emphasised, particularly in sectors with limited supply such as residential care for children, where prices are driven up by market conditions. Confidence was expressed that starting from a more realistic base would enable better budget management, but it was noted that the effectiveness of this approach would be evident in the quarter one forecast to be presented to Cabinet in September.

RESOLVED:
to note the contents of the report.

27 Second line assurance: Annual Treasury Report

The Committee received the Annual Treasury Report for 2025-26 which presented the outturn of Treasury activities during the year, confirming that all Prudential and Treasury indicators were met in line with the Treasury strategy agreed by Full Council in February. New borrowing of £100 million was undertaken, with some borrowing maturing during the year, resulting in a net increase of £39.5 million. This included £61.8 million of borrowing specifically for exceptional financial support.

Investment activity was limited due to restricted cash balances, with daily investments maintained at around £20 million and investment income of £2.4 million secured. The Committee was informed that the inclusion of EFS borrowing was critical to the report.

RESOLVED:

1. To approve the actual 2025/26 prudential and treasury indicators in this report.

2. To note the annual treasury management report for 2025/26.

3. To note the inclusion of EFS borrowing in the 2025/26 position.

28 Overall assurance: Annual Governance Statement and Code of Corporate Governance 2025/26

The Committee received and considered the draft Annual Governance Statement (AGS) and Code of Corporate Governance for the financial year 2025-26. The AGS, a statutory requirement certified by the Leader and Chief Executive, was presented, which sits alongside the Statement of Accounts. The report highlighted the Council's governance arrangements, including strategic risks such as financial sustainability, economic downturns, and cyber security, and reflected the Council's current financial challenges, including the need for exceptional financial support.

The AGS featured a revised format, emphasising the Council's self-awareness of risks and its commitment to manage them. It was noted that a new risk management structure would be introduced at the September meeting.

During discussion, members raised concerns regarding the "reasonable" assurance judgment reached in the AGS. It was questioned whether this judgment was sufficiently evidence-based or relied too heavily on future plans and intentions rather than actual delivery and outcomes. Reference was made to optimism bias identified in previous years, statutory recommendations from external audit, and the history of unachievable budget savings. Members sought assurance that optimism bias had been addressed and that the AGS reflected a realistic assessment of governance arrangements.

The Head of Policy & Governance provided context, explaining that although his opinion for the year was "limited assurance", improvements and increased rigour were observed in the final quarter. It was clarified that the AGS triangulates activities from the statutory officers group and ongoing improvement work, with results to be monitored throughout the year. The Internal Audit Plan for the forthcoming year would focus on evidence-based assessment, and performance reports would be provided to the Committee.

A question was raised regarding the definition of “reasonable” and “limited” assurance, and whether the Committee had sufficient information to make a judgment. It was explained that the assessment is ultimately subjective and determined by the Leader and Chief Executive, as signatories to the AGS.

Further questions were raised about the inclusion of external audit recommendations in the AGS action plan. It was noted that while internal audit recommendations were referenced, external audit recommendations and statutory recommendations should also be included for completeness. The Committee requested that this omission be addressed.

Concerns were also expressed about the transfer of the risk function to sit alongside internal audit, with a request for assurance that an independent firewall would be maintained to avoid conflicts of interest.

It was proposed and seconded that the Committee formally express concern over the judgment of reasonableness in the AGS, noting that it may give too much weight to future plans rather than actual evidence of actions to date. The motion was carried by a majority vote.

RESOLVED:

to note the Draft Annual Governance Statement 2025/26 and Code of Corporate Governance.

to request that external audit recommendations be referenced in the action plan.

to express concern over the judgment of reasonableness and to invite the Leader and Chief Executive to the next meeting to explain their reasoning.

29 **Second line assurance: Approval of the Council's Draft Statement of Accounts 2025/26**

The Committee received the draft Statement of Accounts for the financial year 2025-2026. The importance of the accounts in demonstrating robust governance was emphasised, with recognition given to the timely production of the accounts by the statutory deadline, despite challenging circumstances including new requirements such as exceptional financial support and the accounting treatment for the North West Relief Road write-off.

The Committee was informed that the report outlined the Council’s financial activity for the year, provided a summary of the format of the draft statement, and detailed changes to accounting policies. The main change related to property, plant, and equipment, reflecting updates to the code of practice regarding valuation timing and indexation.

During discussion, questions were raised regarding the sensitivity of property valuations to optimism bias. It was clarified that valuations are conducted by external qualified valuers, independent of council influence, and are based on asset categories and market evidence. The process includes analytical comparisons and challenges from both finance and estates teams but ultimately relies on the professional judgement and certification of the valuers.

RESOLVED:

To approve the draft Statement of Accounts.

30 **Date and Time of Next Meeting**

Members noted that the next meeting of the Audit & Governance Committee would be held on Friday 25 September 2026 at 1.30pm.

31 **Exclusion of Press and Public**

RESOLVED:

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 1, 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following item.

32 **Exempt Minutes of the previous meeting held on the 25 June 2026**

RESOLVED:

That the Exempt Minutes of the meeting of the Audit & Governance Committee held on the 25 June 2026 be approved as a true record and signed by the Chairman.

Signed .... (Chairman)

Date: ....