



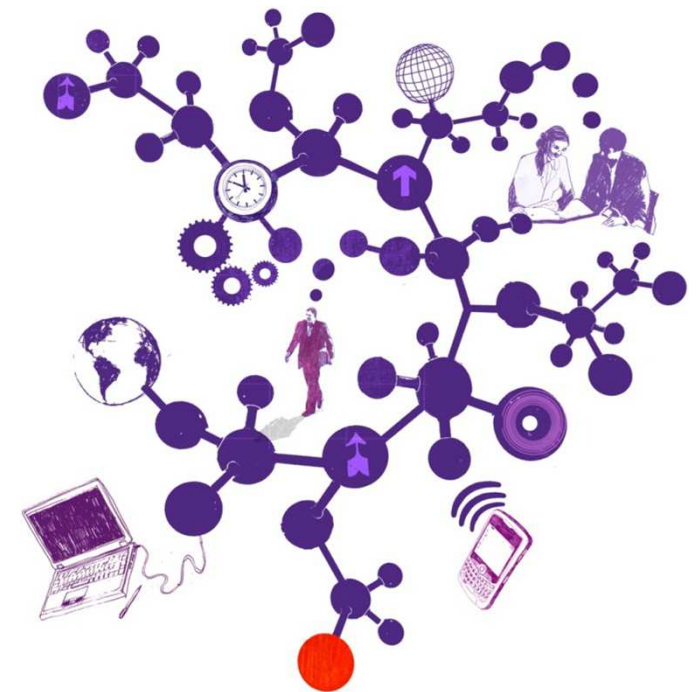
# Benchmarking your arrangements for securing Financial Resilience Shropshire Council

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Background

## Benchmarking for Shropshire Council

You have asked us to benchmark Shropshire Council against the National dataset for 2012/13 to provide a context for your overall performance. This benchmarking pack should be considered alongside our national report on financial resilience in Local Government "2016 *tipping point? Challenging the current*". It should also be noted that 2012/13 was our first year as the Council's auditors and therefore we do not have localised benchmark data for prior years.

The benchmarking compares the Council with sub-populations as follows:

- the national data set of all councils;
- the national data set of all Unitary Authorities.

In 2012/13 Grant Thornton audited 40% of English local authorities. Our findings are set out over the following pages.

## Our Financial Resilience Ratings

We use a red/amber/green (RAG) rating with the following definitions

Green	<b>Arrangements meet or exceed adequate standards.</b> Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	<b>Potential risks and/or weaknesses.</b> Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	<b>High risk:</b> The Council's arrangements are generally inadequate or may have a high risk of not succeeding

## Value for Money conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if councils have proper arrangements in place for securing financial resilience.

In so doing we consider whether councils have robust financial systems and processes in place to manage their financial risks and opportunities, and to secure a stable financial position that enables them to continue to operate for the foreseeable future

The definition of foreseeable future for the purposes of these financial resilience reviews is 12 months from the date of our reports to clients.

## Context

This report needs to be read in the context that 2012/13 was the second year of the four year SR10 period. Therefore, whilst initial savings have been made and plans are developing for further savings to be made, some of the potential risks and challenges over the medium term may have yet to materialise for the Council and the wider sector. So whilst the Council appears to be currently well positioned in comparison with the various peer groups against which we have undertaken benchmarking, you continue to face some significant risks and challenges during 2013/14 and beyond.

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# Your financial resilience

## Historic performance

The Council reported an overspend of £0.284m in 2012/13, representing 0.04% of the original gross budget of £653m. The projected revenue forecast for the current year, at Period 6, shows a potential overspend of £2.639m (0.39%) on a gross budget of £675m. The overspend in 2012/13 was principally driven by purchasing care pressure within long term support for adults (£5m). This area continues to challenge the Council and is the main area of overspend for the Council in 2013/14. Significant focus is now being placed upon managing spend in this area. In addition, a general spending freeze was put in place in January 2014.

## Significant funding gap

In July 2013 the Council estimated a projected funding gap of £80 million. Work has been undertaken since that date to identify ways to close that funding gap to enable a balanced budget to be set for each year within the Medium Term Financial Plan (MTFP). The phasing of the funding gap over the three year period of the MTFP is as follows:

Year	Funding Gap	Savings Proposals
2014/15	£41.5m	£39.9m
2015/16	£20.1m	£24.6m
2016/17	£18.4m	£15.5m
<b>Total</b>	<b>£80.0m</b>	<b>£80.0m</b>

## Bridging the gap

As at January 2014 the Council has identified saving proposals to the value of £80 million over the three year period as shown above. These proposals are broadly phased in line with the funding gaps. There is, however, a shortfall of £1.6m based upon the current profile for 2014/15. There are changes to the growth proposals which will marginally reduce the size of the funding in gap in 2014/15. On this basis, the Council should be in a position to set a balanced budget for 2014/15.

To achieve the level of savings required, the Council has undertaken a zero based budgeting exercise and set budgets to the minimum required. Pressures and unrealised savings plans have historically been managed by one off savings in existing budgets, e.g. vacant posts. As these will now be set at levels deemed to be the minimum required for service delivery there will be little or no capacity within 2014/15 budgets to cover unforeseen or unavoidable budget overspends. This presents a significant risk for the Council going forward.

The Council is responding to these budget pressures by examining what they deliver and how they deliver it across all services. Its commitment to service redesign is focusing on delivering the same or better outcomes to ensure that the real needs of Shropshire people are met, using significantly less money. The plan is to deliver redesigned services ahead of financial necessity.

Whilst examination of the Council services will look across the organisation, there will be an initial focus on areas of largest potential impact as it is recognised that these are crucial for the Council in delivering its financial strategy.

## Looking ahead

The uncertainty within the current financial climate over the medium to long term still presents a high risk for the Council. In addition to the known uncertainties planned for, there remains potential for further, as yet unrecognised risks to develop. As such, the Council is being prudent about the levels of reserves it plans to hold and the level of additional borrowing it plans to take on over the next few years.

Recent developments in the Council's strategic financial planning will be considered as part of our 2013/14 VFM conclusion.

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# Overall messages

## The Council's performance

From the tables that follow the following conclusions can be drawn about your own performance in comparison to all councils and Unitary Authorities:

- The Council performed well when assessed against key financial indicators, financial governance and financial controls being assessed as green in these areas.
- The overall key indicator for Strategic Financial Planning is amber and within this two sub categories are amber; focus on MTFP and adequacy of planning assumptions. These were weaker than the population average. This was due to the overspend in 2012/13 (and projections for 2013/14) primarily caused by purchasing care pressure within long term support for adults (£5m) and that the Council had not completed its process for identifying the required savings at that time.
- Your amber rating against Reserve Balances is weaker than the average population. The General Fund balance reduced to £6.820m as at 31/03/2013 from £7.638m as at 31/03/2012. The fall in reserves was due to a number of movements in and out of the general reserve. The largest reduction was due to the identification of commitments for the New Homes Bonus, and the removal of a specified amount from general fund balance to an earmarked reserve. The Council had a policy to remain above a minimum general fund balance of £3.27m in 2012/13 however and this was achieved. The General Fund Balance is predicted to be significantly lower than the risk based target in 2014/15 (£10.9m compared to £18.5m) but projected contributions are expected to bring the balance in line with target of £12.1m by 2016/17.
- Your rating against Key Financial Accounting Systems is also amber. This was due to deficiencies in internal controls being found by Internal Audit, leading to a qualified opinion on the system of internal control.

## Overall Messages

- The Council is well positioned on the majority of indicators in comparison with all councils and all Unitary Authorities.
- The Council is aware of the areas where improvements are required and actions have been taken to address these.
- A review of the key financial systems is on-going by Internal Audit and the direction of travel is positive with recommendations being addressed.
- The Council continues to face significant financial risks and challenges in 2013/14 and beyond. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered.

## The way forward

The factors that the Council will need to address to achieve a green rating for strategic financial planning are:

- strong controls being implemented around its expenditure for long term support for adults,
- a robust medium-term financial plan with clear savings plans in place, and
- a balanced budget is in place for 2014/15 which is being delivered against.

# How do you compare?

## Benchmarking against all Councils

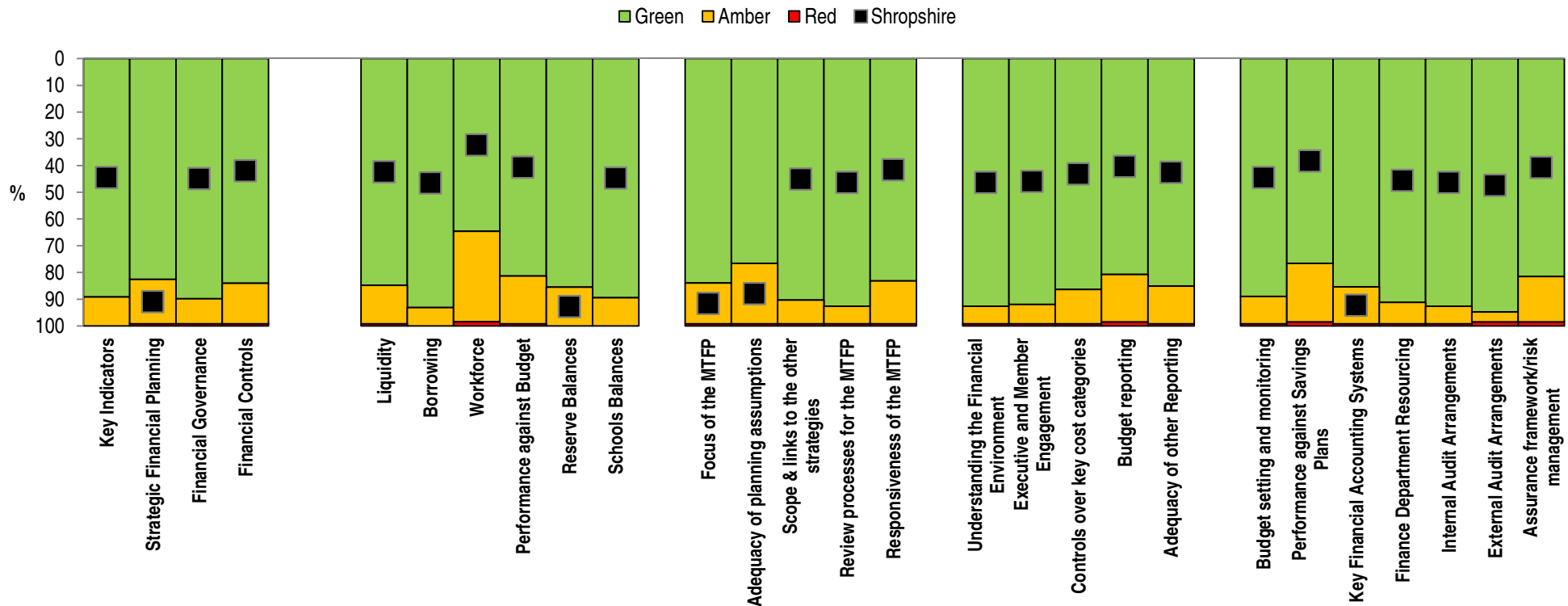
The graph below shows how the Council performs against the results for all councils in 2012/13. We assessed data for 138 Councils. Your scores are plotted as the black squares overlying the population performance: the colour that your black square lies in indicates the level you achieved.

Within these thematic areas we have looked at 22 different categories and the graph below shows your performance in these categories. To the left are the overall ratings for the four themes, and to the right are the 22 categories, grouped to show how they support the overall four themes.

You can draw the following conclusions about the population:

- local government's performance overall is good – in all categories at least half of all Councils achieved green status,
- strategic financial planning categories are the weakest area overall,
- three themes have seen a small proportion of red ratings in 2012/13, which is evidence of some polarisation between the large proportion of good councils and those performing less well.

## Against all councils - all ratings



# How do you compare?

## Benchmarking against Unitary Councils only

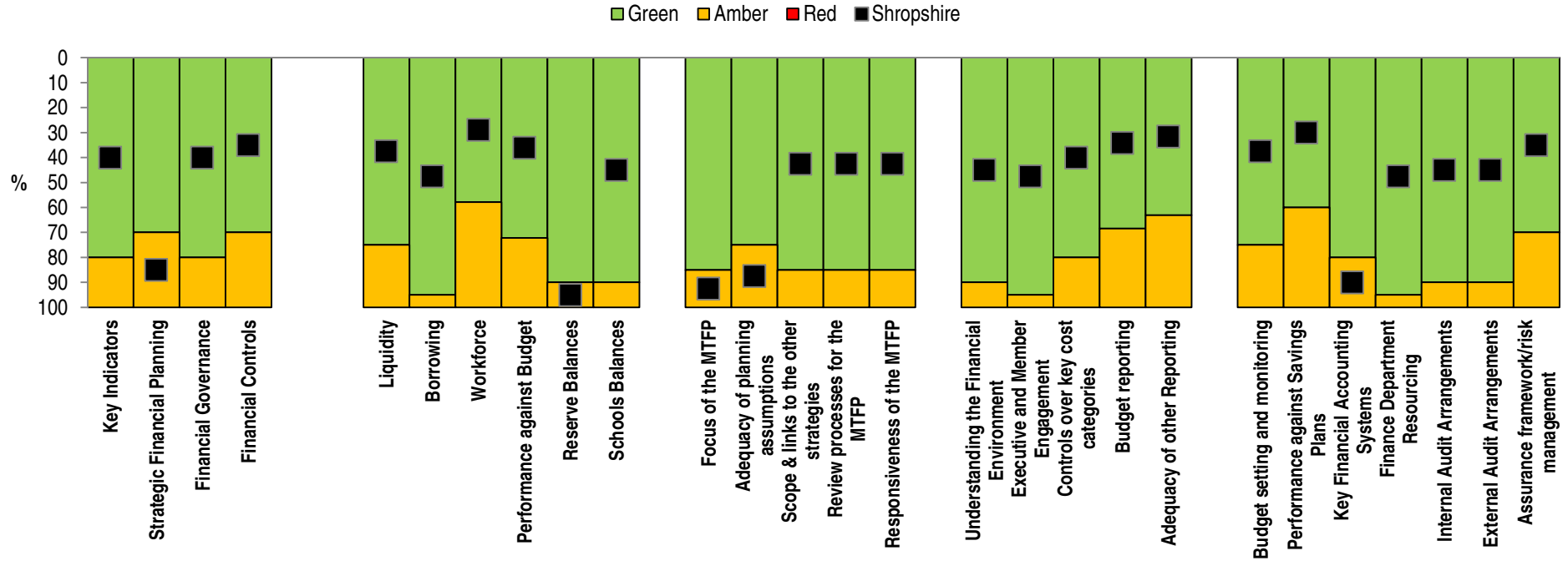
The graph below shows how you perform against the results for all Unitary Councils in 2012/13. We assessed data for twenty Unitary Councils.

Within these thematic areas we have looked at 22 different categories and the graph below shows your performance in these categories. To the left are the overall ratings for the four themes, and to the right are the 22 categories.

You can draw the following conclusions about this population:

- the patterns for all Councils and all Unitary Councils are very similar, but generally speaking Unitary councils perform slightly worse, with a higher proportion of amber ratings overall,
- there are no red ratings for Unitary Councils in any category,
- strategic financial planning categories are the weakest area overall.

## Against Unitary Authority type - all ratings

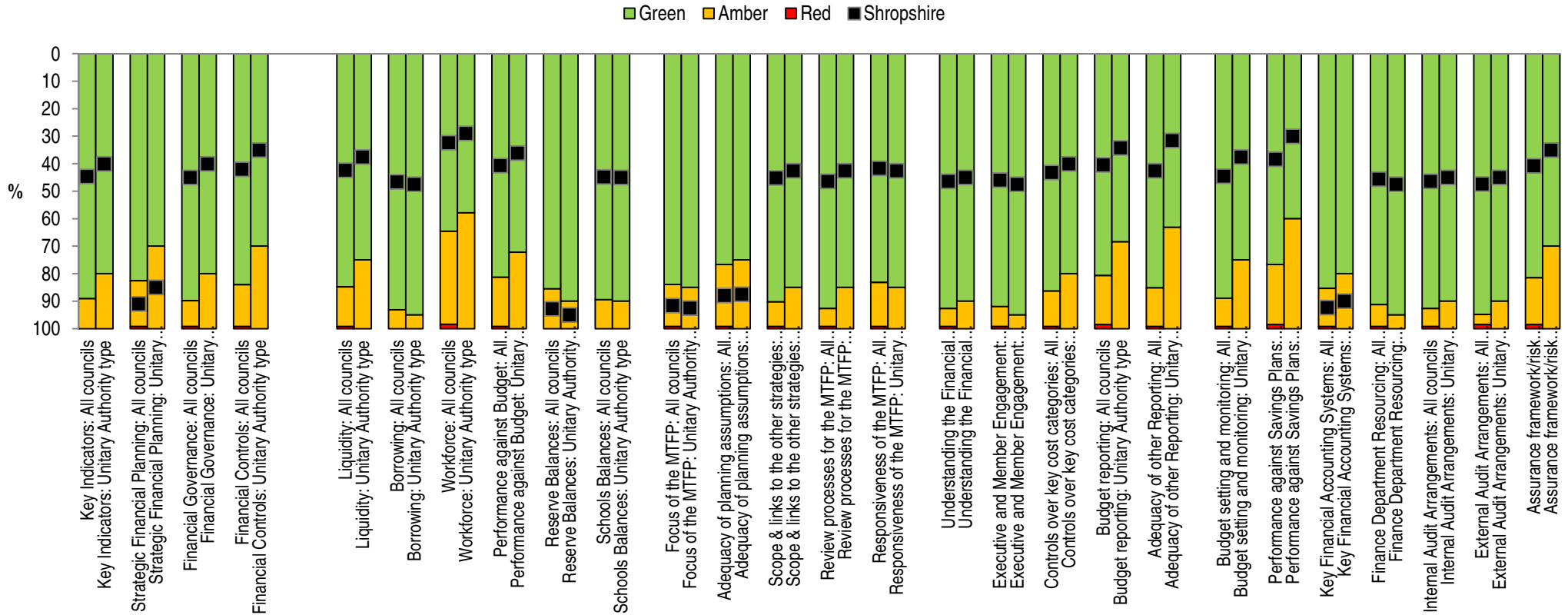


# How do you compare?

## Benchmarking comparing the different client types

The graph below summarises the previous two slides in a single chart

### Against all Councils and Unitary Councils







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