



Date: Friday, 26 September 2025

Time: 10.00 am

Venue: The Council Chamber, The Guildhall, Frankwell Quay, Shrewsbury, SY3 8HQ

Contact: Michelle Dulson, Committee Officer
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AUDIT & GOVERNANCE COMMITTEE

TO FOLLOW REPORT (S)

- 14 Third Line Assurance: External Audit Letter on Financial Position Based on Period 4 (Pages 1 - 8)**
- The report of the Engagement Lead is to follow.
Contact: Avtar S Sohal (0121) 232 6420

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Committee and Date

Audit Committee
26th September 2025

Item

Public



External Audit Letter on Financial Position Based on Period 4

Responsible Officer:	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258951
Cabinet Member (Portfolio Holder):	Roger Evans, Finance Portfolio Holder		

1. Synopsis

Grant Thornton, Shropshire Council's External Auditors, have written to Shropshire Council to highlight concerns about the Council's financial difficulties and the potential need for a Section 114 notice if the financial position does not improve significantly and rapidly.

2. Executive Summary

- 2.1. Shropshire Council has had open discussions with our External Auditors, Grant Thornton, concerning the Council's difficult financial position over recent years. Considering the recent declaration of a Financial Emergency, the Period 4 monitoring report was shared with Grant Thornton and discussions held as part of this year's Value for Money Assessment.
- 2.2. Where Councils are in financial difficulty it is important for their external auditors to be fully engaged in discussions and to prepare for, and comment upon, the real possibility that a Section 114 notice may need to be issued at some point in the future.
- 2.3. Within this context, Grant Thornton have written to the Council setting out their concerns. This has been discussed with the Section 151 Officer and Portfolio Holder for Finance, and the letter is attached at Appendix 1.

3. Recommendations

- 3.1. It is recommended that Members consider the points raised in the letter and endorse the findings as appropriate.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. A risk assessment of the Council's financial position is included in each monitoring report provided to Cabinet on a monthly basis, the most recent approved by Cabinet on 10 September 2025.

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 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.

6. Climate Change Appraisal

- 6.1. No direct implications from this report

7. Background

- 7.1. At the Cabinet Meeting of 10 September 2025, the Period 4 monitoring report (as at end of July 2025) was considered, projecting an overspend of £35.169m of which £0.889m was unfunded which suggests a potentially illegal financial position by year end. In this situation, the Section 151 Officer is obliged to consider if it is necessary to issue a Section 114 notice.

7.2. Cabinet agreed to the immediate declaration of a Financial Emergency and the following recommendations were approved by Cabinet on 10 September 2025:

- Declare a financial emergency and direct the Chief Executive (in conjunction with the Council Leader) to instruct all Officers to take emergency action to reduce all non-essential spending between September and March to significantly improve the Period 4 forecast of a projected spend over budget of £35.169m. Such action should predominantly focus on reducing spend, delivering remaining savings and significant mitigating actions to control in-year spending pressures.
- Direct the Chief Executive to work closely with the LGA and the Council Leader to put in place an independently chaired Improvement Board, as recommended in the recent LGA Corporate Peer Challenge, as soon as practicable.
- Note that Operations Boards, to ultimately work with the Improvement Board, are in place from August 2025 to challenge all in-year spending.
- Note that the Period 4 position (as at the end of July) forecasts indicative savings delivery of £34.012m (57%).
- Note the projected General Fund Balance is now negative (£0.899m), indicating a potentially illegal financial position by the end of the financial year if no further action is taken.
- Immediately direct the Chief Executive, working in collaboration with Cabinet, to bring forward a sustainable corporate plan for the authority to Council in December, reflected in a medium-term financial strategy that sets out an approach to deliver a sustainable financial position within a timeframe of no more than three years.

7.3. Shropshire Council has had open discussions with our External Auditors, Grant Thornton, concerning the Council's difficult financial position over recent years. The Period 4 monitor and recommendations were shared with Grant Thornton and discussions held as part of this year's Value for Money Assessment.

7.4. Where Councils are in financial difficulty it is important for their external auditors to be fully engaged in discussions and to prepare for, and comment upon, the real possibility that a Section 114 notice may need to be issued at some point in the future if the financial position does not improve significantly and rapidly.

7.5. Within this context, Grant Thornton have written to the Council setting out their concerns. This has been discussed with the Section 151 Officer and Portfolio Holder for Finance, and letter is attached at Appendix 1.

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

Local Member: n/a

Appendices

Appendix 1 – Letter on Financial Position

James Walton
Section 151 Officer
Shropshire Council
Shirehall
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Shropshire
SY2 6ND

15 September 2025

Grant Thornton UK LLP

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Dear James

Shropshire Council – Financial Sustainability

Following recent conversations between Grant Thornton and the Council, I am writing to express our concern over the significant and immediate financial challenges that the Council is facing and the risks that they represent to financial sustainability in the short term and medium term. I would emphasise that we recognise the open and transparent engagement with yourself with regards to the financial challenges.

Background

The Council recognises the significant financial challenges it faces due to the increasing demand and cost pressures in relation to Adult Social Care and Children's Social Care. As reported to the Cabinet on 11 June 2025 the financial outturn for 2024/25 across all of the Council services was an overspend of £34.230m, representing a 13.1% overspend. The key contributing factors to this overspend were significant year-end movement in Adult Social Care with the outturn position deteriorating by £15m from the February 2025 position. This overspend left the Council with a total General Fund reserves balance (both earmarked and un-earmarked reserves) of £33.275m.

On 10 September 2025 Cabinet will be presented with the financial monitoring for the first quarter of 2025/26 which reports a forecast £33.544m overspend against a General Fund Reserves balance of £34.280m. Were this forecast outturn to materialise then this would leave the Council with £0.736m of General Fund Reserves. In the same Cabinet meeting the Cabinet will also be presented with an outturn position for July 2025. This details a deterioration in the financial position of the Council with the forecast overspend increasing to £35.169m against the General Fund Reserves balance of £34.280m. The projected variance at the end of July 2025 cannot be accommodated by the reserves balance and would mean that the Council could be in a negative general reserves position by year end. This would potentially be unlawful.

Discussions with you as the Section 151 Officer have confirmed the financial risk facing the Council and the potential need to issue a Section 114 Notice were the financial position not to improve significantly and rapidly. This could come as soon as October 2025 once the September 2025 outturn position has been analysed and the forecast outturn position, and subsequent impact on General Fund Reserves, is confirmed.

In addition to the immediate financial sustainability challenges facing the Council, there is a financial risk around the future of the North-West Relief Road ('NWRR'). The position remains unclear as work has been paused pending a decision on the future of NWRR and could pose an additional financial risk to

the Council dependent upon the outcome. Given the forecast position on General Fund Reserves the Council would not be in a position to fund any additional financial risk from its reserves balance.

Our findings

The recent discussions with you as the Section 151 Officer and the documents to be presented to Cabinet on 10 September 2025 clearly highlight the concerns we have on the financial sustainability of the Council. The Council has been open and transparent in the reporting of these financial challenges and the immediate actions required to mitigate the financial risks as far as possible.

- The July 2025 outturn reporting presents an estimated overspend of £39.257m, mitigated by £2.515m of anticipated savings from the implementation of Operations Board, giving a net overspend position of £36.743m. This overspend has been subsequently reduced to £35.169m as a result of £1.574m improvements in the Adult Social Care Operations reported position. This forecast position would deplete the General Fund Reserves to a negative balance of £0.889m at year end.
- The forecast overspend at July 2025 consists of the following;
 - £25.784m of savings not yet identified or without a clear delivery plan in place
 - £18.175m overspend on purchasing costs within Adult Social Care operations
 - £9.868m overspend on External Residential Placements within Children and Young People. This is a deterioration of £1.5m from the period 3 position.
 - £1.268m overspend on Home to School Transport relating to SEND and Post-16 Transport projections. This is a deterioration of £1.0m from period 3 position.
 - Anticipated savings of £2.515m have been included in the forecast outturn at July 2025.
- Following the overspend position in 2024/25 as a result of the deterioration in the final month of the year an Internal Audit review was commissioned by the Section 151 Officer to look at the cause and identify recommendations for improvement. This review has been completed and is currently at draft report stage. A number of recommendations have been identified to improve the monitoring of spend to avoid future repeats of this situation.
- The report from the Section 151 Officer to the Cabinet on 10 September 2025 has recommended that Cabinet “declare a financial emergency and direct the Chief Executive (in conjunction with the Council Leader) to instruct all Officers to take emergency action to reduce all non-essential spending...”. This has been supplemented with the Council establishing a series of Operations Board to report into an Improvement Board with an Independent Chair, recruitment to which is currently ongoing. The three Operations Boards are as follows;
 - Spending Control Board – overseeing all expenditure processed through the Council’s ERP system of over £500
 - Workforce Review Board – overseeing all recruitment and staffing activity
 - Technical Board – overseeing all income and grant funding
- In July 2025, the Council was subject to an external LGA Peer Review, the findings of which are due to be published shortly. A number of recommendations have been identified to support the Council with financial management and strategy.
- The Council has undertaken scenario analysis on the forecast outturn position for 2025/26 and the ‘favourable’ outturn position would be an overspend of £30.643m which would leave the General Fund Reserves balance of c.£3.6m at year end.
- The Council is in receipt of Exceptional Financial Support for 2024/25 to support the transformation work and remains in discussions with MHCLG on further Exceptional Financial Support.

Our responsibilities

Under the Local Audit and Accountability Act 2014 we are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of

resources. When considering the Council's arrangements one of the three criteria we must report on is financial sustainability.

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money, that recommendations are made setting out the actions that should be taken by the Council. The Code expects where auditors identify significant weaknesses in arrangements as part of their work, they raise them promptly with those charged with governance.

In our 2023/24 Annual Auditors Report we identified a significant weakness in the Council's arrangements for securing value for money with regards to financial sustainability and raised a key recommendation for the Council to consider. Since this report was issued December 2024 the financial position of the Council has deteriorated further. Our value for money work for the financial year 2024/25 is currently ongoing with the Annual Auditors Report due to be issued to the Audit Committee in November 2025.

Given the parlous financial position the Council faces, we are given serious consideration to the exercise of statutory powers under the Local Audit and Accountability Act 2014. At this stage we have not determined this in form or nature. We expect difficult decisions and mitigating actions to be implemented without delay in order for us to step back from this consideration

Next steps

The Council should take immediate steps to mitigate the in-year overspend for 2025/26 and reduce the year end overspend, and subsequent impact on General Fund Reserves. Priority should be given to reducing the overspend across social care services, as well as implementing the recommendations from the LGA Peer Review and rapidly appointing an independent chair to the Improvement Board.

We will continue to closely monitor the financial position of the Council as part of our value for money work and consider any further actions we take under the Local Audit and Accountability Act 2014.

Yours sincerely

Avtar Sohal

Avtar Sohal, Engagement Lead

For Grant Thornton UK LLP

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