



Committee and Date

Audit Committee
26th September 2025

Item

Public



External Audit Letter on Financial Position Based on Period 4

Responsible Officer:	James Walton		
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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