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Grant Thornton

Local authorities adapt to budget cuts but 2016 predicted as a tipping point for financial resilience



Local authorities have so far met the challenges of public sector budget reductions but with the 2015/16 Spending Round confirmed in June, 2016 is expected to be a tipping point for some authorities, when the pressure becomes acute and financial failure is a real risk, according to analysis by Grant Thornton UK LLP.

The firm's third annual report on the financial health of local government in England published today finds that 79% of councils anticipate some form of tipping point in 2015/16 or 2016/17.

The report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

The report shows that county and district councils have performed well, whilst unitary authorities have the lowest number of green ratings* of all council types, with 40%

fearing a tipping point in the short term compared to 20% for other local authority types. Metropolitan districts scored strongly on their financial performance but are also the only type of local authority to score red ratings* for strategic financial planning, financial control and financial governance.

On a regional level, the north of England was the best performing area over the four key performance indicators. However it was also the only area with red ratings, reflecting the impact of metropolitan districts, many of which are located in the North. The South West performed the worst, with the Midlands presenting a mixed message, scoring the lowest green rating out of all the regions for strategic financial planning.

Looking at the financial performance of individual authorities, Grant Thornton's report reveals that a significant minority of local authorities aren't reporting changes to saving plans (caused by slippage or non-delivery) in a transparent way. The worst performing region was the South East, with 52% of councils not accurately reporting changes to savings plans. This year's report also highlights a growing



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need for authorities to ensure they have appropriate strategic financial planning skills to help navigate the challenges and uncertainties over the medium term.

Commenting on the report's findings Mark Burke, partner for public sector advisory at Grant Thornton in Yorkshire and the North East, said: "In last year's report, we highlighted that government funding reductions could see some local authorities facing a financial tipping point. Since then, we've been in extensive dialogue across the sector which has confirmed that these tipping point scenarios are possible or even probable. This has also allowed us to fix on a timescale of 2016 onwards when local authorities may face one or more of these tipping points.

"As funding reductions start to bite harder and deeper after 2015, councils will be faced with a great challenge. In order to remain sustainable, authorities will need to have a relentless focus on generating additional sources of revenue income. This can range from investments in the commercial property portfolio to regeneration and inward investment and the skills agenda to boost local economic activity. Equally, councils will have to continue to improve efficiency through shared services, strategic partnerships and wider re-organisation. Even after all of this, the public will need to understand that service quantity will need to be reduced and may never return to their pre- 2010 levels."

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Photo shows: Mark Burke, partner for public sector advisory at Grant Thornton in Yorkshire and the North East

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Notes to editors

*Risk-rating criteria

Green

Arrangements meet or exceed adequate standards

Adequate arrangements identified and key characteristics of good practice appear to be in place.

Amber

Potential risks and/or weaknesses

Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened.

Red

High risk

The authority's arrangements are generally inadequate or may have a high risk of not succeeding.

About us

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 24 locations nationwide. While we understand regional differences and can respond to needs of local



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authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by 200 partners and employing nearly 4,000 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities. This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector. We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

Find out more at

<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>

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