

FINANCIAL STRATEGY 2021/22 – 2025/26

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1. Summary

- 1.1 The Financial Strategy report sets out the financial plans for Shropshire Council for the planning period 2021/22 through to 2025/26. The key focus of this document, however, is the setting of the 2021/22 budget. Following the outbreak of the COVID-19 pandemic the Government decided to further delay the implementation of the Fair Funding Review, and a four year Spending Round, for another year so that it is now expected to take place in 2021/22. As a result, the bulk of Government funding for next year has remained at consistent levels to that provided in 2020/21. This funding settlement therefore does not bridge the gap in funding arising year on year due to the increase in social care costs and the need to continually reduce other service budgets to ensure that this statutory service can be provided.
- 1.2 The Country entered lockdown from 23 March 2020 and Council Services were closed, delivered remotely or moved into emergency provision. Over two and a half thousand Council staff were required to work from home and/or make themselves available for redeployment. Business continuity measures were immediately put into place across the Council. Emergency spend was sanctioned, protocols to support suppliers, contractors and local businesses were implemented and a Council Tax deferral scheme was hurriedly introduced for the months of April and May. Lockdown was relaxed over the summer months followed by a further lockdown from 5 November to 2 December 2020 and a third national lockdown from 5 January 2021. The impact of Covid-19 will not be eradicated before the end of March 2021, meaning that the entire 2020/21 Financial Year will have been completed under unique circumstances with little clarity over how things were managed, certainly in relation to service delivery, as a result of circumstance as existed at that time, what will ultimately 'snap back' in the future and what was a signal of lasting change.
- 1.3 The Government announced multiple waves of funding and initiatives over the year, in response to the Covid-19 outbreak, and overall this funding appeared to cover the direct financial implications for the Council in 2020/21. The longer-term implications for Council Tax collection and other vital income sources for the Council such as Business Rates, On-Street Parking and Cultural Services is, however, unknown. The requirement to deliver essential services to vulnerable people, and the infrastructure, overheads and running costs supported by this income have not diminished and have, in many cases, grown.

- 1.4 A look ahead to the 2021/22 Financial Year and beyond indicates the potential for significant change on the horizon for the Council at a local level. Council elections are due in May 2021 bringing to an end the current four year term and with it the need to set a new four-year plan. The Financial Strategy cannot be created in isolation and needs to reflect the Council's priorities, not set them.
- 1.5 There is considerable uncertainty beyond the 2021/22 Financial Year, not only as the recovery from the COVID-19 pandemic continues to play out but also due to the following expected changes in local government finance now timetabled for introduction from 1 April 2022:
 - 1.5.1 Fair Funding implementation – a fundamental re-evaluation of local government finance resulting in a redistribution of government and locally raised funding across local authorities based on needs and demand.
 - 1.5.2 Business Rates Retention – an expected shift from 50% local retention of business rates to 75% retention, with an equivalent reduction in grant funding and as yet unknown responsibility changes
 - 1.5.3 Full Business Rates reset – establishing a new baseline for business rates retention, reallocating growth since the previous reset in 2013.
 - 1.5.4 Comprehensive Spending Review – a process undertaken by HM Treasury to set expenditure limits across government departments and the wider public sector. The impact of this process has the potential to outweigh all other proposed changes.
 - 1.5.5 A potential further review or removal of the New Homes Bonus system, a mechanism that has helped deliver additional, albeit time-limited, funding for the Council to help offset the additional costs associated with housing growth across the county.

2. Recommendations

It is recommended that Members:

- A. Approve the 2021/22 budget of £554.318m outlined in the Budget Book at Appendix 2, including the savings proposals outlined in section 4.5 of the Medium Term Financial Strategy (MTFS) at Appendix 1.
- B. Note the changes required to the 2021/22 budget as a result of the Provisional and Final Local Government Settlement and revised business rates and collection fund estimates.
- C. Note the revised funding gap for the years 2022/23 to 2025/26.
- D. Note the Statement of the Chief Financial Officer on the Robustness of Estimates and Adequacy of Reserves as set out in Sections 6.1 – 6.3 of the MTFS at Appendix 1
- E. Approve the recommended level of general balances to support the 2021/22 revenue budget of between £12.174m and £16.598m, noting that the projected balance is presently below this for 2021/22.

- F. Note the projected recommended level of general reserves for the following four years at £53m in 2022/23, £40m in 2023/24, £37m in 2024/25 and £35m in 2025/26.
- G. Note the continued use of the Policy for Flexibility around the use of Capital Receipts as detailed in section 8.1 of the MTFS
- H. Agree the Pay and Rewards Policy for all Council staff for 2021/22 as set out in Appendix 3.
- I. Approve a revenue budget virement of £1.710m between Corporate Budgets and Place as detailed at section 7.1 of this report below.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The development and delivery of the Council's Financial Strategy is the key process in managing many of the Council's strategic risks. The opportunities and risks arising are assessed each time the document is refreshed for Cabinet consideration. The Council's Strategic Risks are reported separately, but the Financial Strategy makes specific reference to the Council's ability to set a sustainable budget (the highest of the Council's key strategic risks).
- 3.2 Setting the Financial Strategy and agreeing the detailed changes necessary to deliver the agreed budget for the next financial year, will take into account the requirements of the Human Rights Act, any necessary environmental appraisals and the need for Equality and Social Inclusion Impact Assessments (ESIIA) and any necessary service user consultation.

4. Climate Change Appraisal

- 4.1. The Council's Financial Strategy supports its strategies for Climate Change and Carbon Reduction in a number of ways. The future programme includes programmes to support a range of initiatives such as moving to LED street lighting, enabling agile and mobile working dramatically reducing travel and support for Park and Ride schemes to reduce car emissions within the town centres. The impact of these and other measures will be considered alongside work to measure and monitor the Council's carbon footprint.
- 4.2. The impact of Covid-19 has seen benefits in terms of energy and carbon efficiency across the Council which have the potential to provide significant opportunities going forward. Services have been delivered online with the majority of staff working from home. This, in turn, has led to reductions in printing volumes, increases in online interaction, reduced staff travel and a resulting positive impact on climate change and pollution levels. Future plans will look to lock in benefits such as these

- 4.3. The Council receives a share of profits from the jointly owned West Mercia Energy (WME) joint arrangement. The electricity supplied to Shropshire Council is now supplied from 100% renewal sources. Furthermore, profit share received from WME is ringfenced to support climate change initiatives in Shropshire such as the LED street lighting programme.
- 4.4. Shropshire is the 5th largest generator of renewable energy in the UK. Work is also underway to bring forward the development of additional renewable energy schemes such as solar farms and hydro energy from the river. Through its wholly owned housing company (Cornovii Developments Ltd) new housing developments are aiming to build zero carbon houses wherever possible, including photo voltaic panels, outstanding levels of insulation and EV charging points.
- 4.5. All business rates collected from renewable energy projects in Shropshire, such as solar and wind farms and anaerobic digesters, is retained by Shropshire Council (i.e. there is no 50% allocation to Central Government or 1% allocation to the Fire Service). From 2020/21 onwards, all business rates from renewable energy projects is ringfenced to support climate change initiatives in Shropshire such as the LED street lighting programme.
- 4.6. The councils waste and recycling service is amongst the best nationally for recycling and the recovery of value from waste. Further developments in the service are planned to increase this performance even more. For example work is underway to explore the development of a heat network that distributes steam from the Battlefield Energy from Waste facility to surrounding business and industrial premises.

5. Financial Implications

- 5.1. This report sets out the financial implications for the Council over the 2021/22 – 2025/26 Financial Years. Details are contained within the Medium Term Financial Strategy attached at Appendix 1.

6. Background

- 6.1. Cabinet considered the first Financial Strategy for 2021/22 on 6 July 2020 and an updated position on 14 December 2020. Since this date the Council has received details of the Provisional and Final Local Government Finance Settlement for 2021/22 from the Government and the grant allocations provided within this settlement have now been reflected within the Finance Strategy.
- 6.2. The collection fund outturn for 2020/21 has been estimated and provides the Council with an overall deficit of £21.4m in 2021/22. The deficit has arisen due to the impact of the COVID-19 pandemic and it is expected that a Business Rate Relief grant in the region of £21.1m to offset the impact. Government is also allowing collection fund deficits to be phased over three years so an ongoing impact will be felt here too. The deficit and grant have been included in the Resources and Funding Gap position detailed within the MTFS at Appendix 1.

- 6.3. The MTFs at Appendix 1 also considers the Council's robustness of estimates and adequacy of reserves that the Council holds. This includes reviewing the General Fund Balance that the Council holds and any other earmarked reserves. The risk assessed level of General Fund Balance for 2021/22 is calculated as being between £12.174m and £16.598m, and it is anticipated that the level of General Fund Balance as at the end of the 2020/21 financial year will be below this. Given the potential to decommit earmarked reserves in the short term under an emergency situation, it is considered acceptable, in this scenario, for the General Fund Balance to remain below the risk assessed level.
- 6.4. At Cabinet on 8 February 2021 the Financial Strategy was considered, and the report included a 4.99% (1.99% increase to Council Tax and 3% increase to Social Care Precept) increase in Council Tax as the planning assumption. At that meeting, Cabinet resolved to amend the recommendations within the report, requesting that a revised Financial Strategy is brought to Council on 25 February 2021 based upon a 3.99% Council Tax increase. This revision would require a recalculation of the gross budget and revision of the recommendations within this and other associated Council reports (most notably the Council Tax Resolution Report). The 3.99% increase was to be based upon a 1.99% general increase and a 2% Adult Social Care Precept increase (deferring a further 1% increase to the following year). The shortfall in the budget resulting from this change would therefore be for one year only and was estimated to be £1.6m. Cabinet resolved to fund this, initially, from a contribution from reserves. The Financial Strategy has been revised to take account of the resolutions made by Cabinet and the additional 1% Adult Social Care Precept has been built into the 2022/23 resources planning assumptions with base budget.

7. Virement Approval

- 7.1. Any budget virements in excess of £1m must be approved by Full Council. This report seeks approval to a revenue budget virement (to the 2020/21 budget) of £1.710m between Corporate Budgets and Place Directorate due to the changing redevelopment plans for the Shrewsbury Shopping Centres. A draw of £1.710m from the Invest to Save reserve had been built into the Shopping Centres' 2020/21 budget to reflect planned redevelopment. The impact of Covid-19 over the year has prevented plans from progressing as originally expected and the draw from the reserve is no longer appropriate. It is therefore proposed to remove this draw from reserves in 20/21. The budget shortfall relating to Shopping Centres is reflected in the Quarterly Monitoring Reports and will take account of this virement.

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

Financial Strategy 2020/21 – 2021/22 – Cabinet 14 December 2021
Financial Strategy 2021/22 – 2025/26 – Cabinet 08 February 2021

Cabinet Member (Portfolio Holder)

David Minnery: Portfolio Holder – Finance & Corporate Support

Local Member:

All

Appendices

Appendix 1 – Medium Term Financial Strategy 2021/22 To 2025/26

Appendix 2 – Budget Book for 2021/22 (will be attached electronically only)

Appendix 3 – Pay and Reward Policy