

## **FINANCIAL STRATEGY 2018/19 – 2022/23**

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### **1. Summary**

This report is the first financial strategy report for 2017/18 and provides information and recommendations on the Council's proposals to manage its financial position for 2018/19 and beyond.

In this report, officers have revisited the extensive growth modelling exercise previously carried out in May 2016. This exercise has been undertaken over the summer of 2017 and provides a detailed projection of the Council's financial position over the next five years based upon delivery of services in accordance with current Cabinet and Council approvals. The results of this growth modelling are set against a model of available resources projected over the same period resulting in an updated funding gap for the Council.

Significant changes as a result of this work include:

- Additional pressures as a result of growing demand and demographic changes particularly in Children's services, alongside known growth in Adult Services;
- The cumulative impact of changes and loss in funding that are, nevertheless, tied to the statutory delivery of services;
- Increased inflation requirements for major contracts;
- Savings proposals that have previously been drawn up by officers, but have not been achieved or approved for delivery due a number of contributory factors;
- Continued Government funding reductions.

As a result the funding gap has grown. Furthermore a significant proportion of this growth has been felt most keenly in the 2018/19 financial year. The estimated funding gap for 2018/19 had previously been estimated at £24m, but is now expected to be in the order of £36m. This gap is then expected to grow by approximately £6m per year as set out in Table 1. below:

**Table 1: Revised funding gap**

Year	2018/19	2019/20	2020/21	2021/22	2022/23
Funding Gap	£36m	£44m	£49m	£54m	£59m

We have a statutory duty to set a legal budget. As a result, the Financial Strategy attempts to accurately reflect the level of spend we are due to undertake in future years reflecting the services we believe we have a duty to deliver. To produce a balanced budget, the gap between this estimated level of spend and our estimated level of resources has been bridged as far as possible by the use of one-off funds. Previously the gap could be bridged for the years 2017/18 and 2018/19, and partially bridged in 2019/20. An initial review now suggests that the 2018/19 gap can no longer be completely bridged. It is currently estimated that following application of all known one-off resources, and with no further action, a gap of approximately £2.4m would remain in the next financial year, 2018/19.

The outcome (regardless of how it is described within the budget process) is that the growth in Adult Social Care and the costs of other statutory responsibilities of this council are not affordable under the current funding and expenditure model. The use of one-off funding is masking, and not solving, the underlying financial position where expenditure will continue to outstrip resources. Decisive action in the short term is critical to bring this worsening situation under control.

An approach is being developed by officers and Cabinet in response. This approach requires Council priorities to be set by Cabinet, followed by an alignment of service delivery to those priorities. In simple terms, this means understanding what we want to do and then putting our efforts into doing those things as efficiently as we can. Four key pillars of this approach can be summarised in the following priority order:

- |              |   |
|--------------|---|
| Innovate     | Focus on the highest priority areas and those most likely to provide greatest reward including Children's Services, Digital Transformation and Health and Adult Services  |
| Raise Income | Focus on investment and commercial activity   |
| Cut Services | Reconsider the core services the Council will continue to provide and focus resources on that core offer only. Once decided, make these decisions as quickly as possible. |
| Use Reserves | In a strategic manner to enable and smooth the delivery of the above.   |

The Department for Communities and Local Government is currently seeking applications from authorities to pilot 100% Business Rates Retention in 2018/19 and to pilot new pooling models. Discussions have commenced with Telford and Wrekin and Herefordshire Councils to assess whether submission of a joint business case could be beneficial to our areas. The deadline for submission of business cases is Friday 27 October but assessing the potential financial implications and developing associated governance arrangements are complex issues which are still being discussed.

## 2. Recommendations

It is recommended that members:

- A. Agree the changes required to the 2017/18 budget as a result of the Final Local Government Settlement and the introduction of improved Better Care Funding announced in the Spring Budget.
- B. Note the changes required to future years budgets as a result of the Local Government Settlement and the review of expenditure and income following a second growth modelling exercise.
- C. Note the revised funding gap for the years 2018/19 to 2022/23
- D. Approve the savings proposals which will contribute towards delivery of a balanced budget in 2018/19 as outlined in Appendix 4
- E. Grant delegated authority to the Head of Finance, Governance and Assurance (s151 Officer), after consultation with the Portfolio Holder for Finance, to apply for Business Rates pilot status alone or jointly with one or more other councils.

## 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). Other risks associated with or mitigated by the setting of an approved Financial Strategy are listed below:

- ICT Provision
- ICT Digital Transformation
- Future Funding Levels

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.

## Financial Uncertainty

- 3.3. There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years. It is still unclear as to the extent of this impact as a great deal of work, including consultation where necessary, is required to move from the production of savings proposals to actual changes in service delivery seen on the ground. Nevertheless, we will continue to identify proposals for service reductions that are necessary to deliver a balanced budget over the medium term. This approach needs detailed consideration to ensure the Council is not placed at risk of being unable to deliver statutory functions to an appropriate quality
- 3.4. The Final Local Government Finance Settlement from February 2016 provided details for the financial years 2016/17 to 2019/20. In addition, Central Government offered to provide all local authorities with a confirmed multi-year offer (to 2019/20) where any Council was prepared to provide details of its efficiency statement before the deadline of 14 October 2016. Shropshire Council agreed to accept this offer and as a result the following allocations provided in the final settlement are now expected to be honoured:
- Revenue Support Grant (RSG)
  - Rural Services Delivery Grant (RSDG)
  - Transition Grant (2016/17 and 2017/18 only)
  - Business Rates Top-Up Grant

Whilst the offer does not cover the following key grants meaning they cannot be guaranteed they do appear in the Local Government Settlement so in this iteration of the strategy they have been built in to 2019/20. Whether these will continue beyond this point is unknown.

- New Homes Bonus (NHB)
  - Improved Better Care Fund (IBCF)
  - Additional Better Care Fund (ABC)
- 3.5. There is further uncertainty in the short term as IBCF and ABC are being reviewed again by central government. A number of local authorities are being targeted and details of their spending proposals are being challenged which could result in changes to the funding mechanism.

- 3.6. To help mitigate risks all core grants identified in the two lists above have been considered as one-off funding. Reliance on these funds, however, has still been assumed over the medium term.

#### 4. Developing the Strategy

- 4.1. Shropshire Council has taken up the Government's offer of a multi-year settlement (as approved by Council in October 2016) and this ostensibly provides certainty in resources through to 2019/20. Beyond this point, however, there are no details as to what local government funding could look like.
- 4.2. Local Government continues to face considerable uncertainty with regards to future funding arrangements and this has a direct impact on the ability to develop a longer term finance strategy.
- 4.3. The reality is that a number of significant funding streams (for example Improved Better Care Fund and New Homes Bonus) are excluded from the multi-year settlement and the fourth and final year of the multi-year settlement period (2019/20) is also the year that 100% Business Rate Retention and Fair Funding was originally timetabled to begin.
- 4.4. The Department for Communities and Local Government (DCLG) has stated that there are no current plans for resurrecting or re-introducing the provisions of the Local Government Finance Bill which means that the introduction of 100% retention is effectively suspended with no current plans for its introduction. It is expected that DCLG will contact local authorities again once it has proposals for a business rates policy going forward and how that might be introduced. It has said that it is engaging ministers on the options for future reform without an immediate Bill and that “the government is committed to delivering the manifesto pledge to help local authorities to control more of the money they raise and will work closely with local government to agree the best way to achieve this.”
- 4.5. The DCLG has stated that the fair funding review does not require a slot in the legislative calendar and will be continuing along its current trajectory. Technical Working Groups, however, have not as yet presented details of how this might operate so it is impossible to calculate the impact of these changes on Shropshire Council. The option to create a long-term financial strategy is consequently not available and as such the Council continues to develop a two-stage approach:

- 1) Develop a short-term financial strategy for the year 2018/19 based on achievable, lower impact savings proposals and using one-off resources to close the resultant gap.
- 2) Develop an underlying strategy, alongside the Corporate Plan, Economic Growth and Commercial Strategies, to supersede the short-term strategy. This will focus on four key themes of innovation, income generation, service cuts and strategic use of reserves. Using the time afforded by Stage 1, this enables a considered approach to be undertaken to Stage 2 albeit still with clear financial benefits from earlier implementation.

4.6. The Financial Strategy is based upon delivery of a balanced budget over the Medium Term. Each year the delivery of services and savings proposals is monitored and reported to Cabinet on a quarterly basis. The impact of significant additional pressures (for example, demographic pressures in Adult Services) and the non-achievement of savings proposals impact not only on the relevant financial year, but also in future years of the Strategy. In previous years there has been an ability to freeze spending elsewhere in the budget to compensate for these pressures. In the future, there is a significant risk that there will be insufficient controllable budgets left in the Council to mitigate pressures appearing elsewhere. This may mean that reserves held for emergencies instead become relied upon to cover known pressures. If reserves are depleted in this way, the Council's funding position will become unsustainable.

4.7. Detailed work has been undertaken to revise the growth projections across the Council, in particular for Adult Services and Children's Safeguarding services where the expenditure is most volatile. This work is influenced by numerous variables which are often non-controllable. Each of these issues can lead to uncertainty in the base data or assumptions which are then extrapolated. If the pressure in Adult Services and Children's Safeguarding in future years is understated this would lead to short term decision making to deliver a balanced budget. If this pressure is over stated in future years, this would lead to decisions being taken elsewhere in the Council's budget that may be unnecessary. The risk of continued budget variances in this area have been reduced by allocating dedicated resources to model spend projections and by attempting to model and identify all variables.

## 5. The Funding Gap

- 5.1. Both Resources and Expenditure projections have been updated and the Revised Funding Gap is shown below in Table 2.

**Table 2: Revised Funding Gap for 2018/19 to 2022/23**

£'000	2018/19	2019/20	2020/21	2021/22	2022/23
Revised Expenditure	591,170	605,151	601,101	615,645	631,458
Revised Resources	554,703	561,189	552,542	561,977	572,188
<b>Revised Funding Gap</b>	<b>36,467</b>	<b>43,962</b>	<b>48,559</b>	<b>53,668</b>	<b>59,270</b>

5.2. Whilst there is some improvement in resources the overall position is considerably worse than last time due to increased pressures across a range of sources.

5.3. Table 3 below identifies the key changes to the funding gap for 2018/19 and 2019/20. In addition the figures for 2020/21 to 2022/23 can now be included. As these figures have not been reported previously, there is no change in the gap to explain, hence this section of the table is greyed out.

**Table 3: Change in Funding Gap since 23 Feb 2017**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>Funding Gap as at 23 Feb 2017</b>	<b>23,822</b>	<b>36,597</b>	n/a		
Net Change in Grants	-885	-6,492			
Increase in Council Tax Base	-243	-513			
Change in Fees & Charges	-92	-1,224			
Revision to future savings		-312			
Change in Pay & Prices	2,198	3,917			
Increase in Demographic/Demand led/New Service Pressures	7,643	7,965			
Savings proposals that have not been achieved	4,025	4,025			
<b>Revised Funding Gap</b>	<b>36,468</b>	<b>43,963</b>	<b>48,559</b>	<b>53,669</b>	<b>59,270</b>

Green

=Position impact on funding gap

Red

=Negative impact on funding gap

## 6. Resource Projections

6.1. There have been a number of changes to the resource projections since the February Financial Strategy. These are summarised below in Table 4 and the most significant discussed in the paragraphs that follow.

**Table 4: Change in Resources since 23 Feb 2017**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>Resources as at 23 Feb 2017</b>	<b>560,656</b>	<b>554,754</b>	n/a		
New Homes Bonus	5	5,635			
Improved Better Care Fund		8,153			
Change in Specific Grants	-6,294	-9,090			
Increase in Council Taxbase	243	513			
Change in Fees & Charges	92	1,224			
<b>Revised Resources Oct 2017</b>	<b>554,702</b>	<b>561,189</b>	<b>552,542</b>	<b>561,977</b>	<b>572,188</b>

**New Homes Bonus and Improved Better Care Fund**

- 6.2. Neither the New Homes Bonus or the Improved Better Care Fund allocations are referenced in the multiyear offer and in previous iterations of the strategy were assumed to cease in 2018/19. The grants are acknowledged, however, in the Local Government Settlement for 2018/19 and they have therefore been built into the strategy. The New Homes Bonus has been assumed to continue for the full term shown in Table 4 above. These grants fund existing expenditure and any changes to these assumptions will increase the funding gap.

**Specific Grants**

- 6.3. The change in specific grants is assumed to have no material impact on the funding gap as expenditure may adjust in line with these changes. The change is made up of several changes across many grants but most notably a large decrease in Dedicated Schools Grant (DSG) and Education Support Grant (ESG) is offset by the introduction of the Additional Better Care Funding which is described below.

**Additional Better Care Fund**

- 6.4. After the Council's budget for 2017/18 was set, local authorities received the announcement within the Spring Budget Statement that they were to receive additional improved Better Care Funding over the next three financial years. Shropshire Council's allocation is as shown in Table 5:

**Table 5: Shropshire Council's Additional Better Care Fund Allocations**

2017/18 £'000	2018/19 £'000	2019/20 £'000	<b>Total £'000</b>
5,976	3,959	1,967	<b>11,903</b>

- 6.5. There are several conditions attached to the funding, the first being that the grant must be spent on services not already budgeted for. As Shropshire



Council has adopted an approach of prioritising expenditure on adult social care, existing adult social care services are already fully funded within the Council's 2017/18 revenue budget (albeit through the creating of a subsequent funding gap for the authority as a whole).

- 6.6. Secondly, the additional funding is subject to a series of strict targets and measures that restrict its use. The funding is explicitly focused on reducing pressures on the NHS, particularly delayed hospital discharges. This, and the condition of additionality of expenditure as above, has meant that a list of new schemes and pilots has been created in order to make use of the grant for 2017/18, focusing on ways that NHS related outcomes can be improved in this financial year.
- 6.7. The grant must be pooled into the Better Care Fund, and therefore there is a requirement that the Council's plans for grant expenditure are jointly agreed with Shropshire CCG and approved by Shropshire's Health and Wellbeing Board.
- 6.8. The additional funding is one-off and time-limited, and therefore does not change the Council's underlying funding gap. Therefore, the Council cannot create new legacy cost pressures as a result of the funding, and this has added to the challenge of committing the grant in a way that is useful and meaningful, as long-term placement costs, for example, cannot be funded with the grant, as the Council would not be able to afford these costs after the grant has been withdrawn.
- 6.9. Further to this, the late notification of the grant, and the delay to the accompanying guidance, has meant that many schemes have not been active until recent weeks. This makes it highly unlikely that the full grant 2017/18 allocation will be spent this year, as intended by DCLG. Shropshire Council is therefore seeking reassurance that grant not spent within 2017/18 can be carried forward into the next financial year, however no reassurance has been provided by DCLG at this time, and therefore there is a risk that some of the grant may have to be repaid.
- 6.10. Allocations for 2018/19 are draft, and are subject to local authorities meeting required targets for delayed discharges from hospitals throughout autumn 2017. Those local authorities who do not meet required hospital discharge targets in the autumn are likely to have a reduction to their iBCF allocation in 2018/19. Shropshire Council intends to use part of its 2018/19 allocation to maintain services that would otherwise have to be reduced, in accordance with its Financial Strategy, however the value of the grant that may be available for this purpose will depend upon whether part of the 2017/18 allocation can be carried forward, and on the value of the 2018/19 allocation. A further update will be provided in the next Financial Strategy.

- 6.11. There is further uncertainty in the short term as iBCF and ABC are being reviewed again by central government. A number of local authorities are being targeted and details of their spending proposals are being challenged which could result in changes to the funding mechanism.

### **Council Taxbase**

- 6.12. The estimate of growth in council taxbase has been increased from 1.58% to 1.75%. Whilst this increase comes with risks and is higher than the national average it is in line with actual increases that have been seen in Shropshire over the last few years. It is assumed that Shropshire Council's element of the Council Tax will be increased by 3.99% for each year of the Financial Strategy. This had already been assumed in previous planning and only the impact of the increased assumptions on Council Taxbase will result in revised figures.

### **Fees & Charges**

- 6.13. Fees and Charges across the Council have been reviewed. The present model assumes discretionary increases in line with inflation. Further work is currently being undertaken to identify opportunities for increased income generation and it is anticipated that this work will help reduce the present funding gap.

## **7. Expenditure Projections**

- 7.1. A detailed review of the growth model has been undertaken over the summer of 2017. This is a refresh of work carried out in May 2016. The result is that expenditure has increased since the last iteration of the financial strategy in February 2017. A summary of the increase is shown below in Table 6 and the most significant items discussed in the paragraphs which follow.

**Table 6: Change in Expenditure since 23 Feb 2017**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>Expenditure as at 23 Feb 2017</b>	<b>584,478</b>	<b>591,350</b>	n/a		
Change in Specific Grants	-7,174	-1,794			
Pay inflation and increments	570,346	1,345			
Prices inflation	1,628	2,571			
Increases in demography/demand	3,208	3,537			
Service Specific Pressures	4,435	4,427			
Unachievable savings proposals	4,025	4,025			
Improved 19/20 savings proposals	0	-312			
<b>Revised Expenditure Oct 2017</b>	<b>591,170</b>	<b>605,151</b>	<b>601,101</b>	<b>615,646</b>	<b>631,458</b>

### **Grants**

- 7.2. As described above in the resources section changes in specific grants, New Homes Bonus and Additional Better Care Fund has no material impact on the

funding gap as it is assumed that expenditure will adjust in line with these changes (although any change that reduced NHB to below £5m would directly impact on the funding gap). The change shown is made up of several changes across many grants but most notably a large decrease in Dedicated Schools Grant is offset by the introduction of the Additional Better Care Funding. Expenditure plans are flexed accordingly.

### **Pay inflation and increments**

- 7.3. A 1% pay award is assumed for staff year on year and assumptions are also made about how staff will move along the incremental pay scale. There has been an adjustment in the approach to increment cost which reflects the fact that evidence suggests that the cost is unlikely to taper over a period but remain relatively constant as turnover of staff and staff moving job roles continues.

### **Prices Inflation**

- 7.4. The authority is committed to a number of different contractual arrangements, whilst some of these contracts are constructed to deliver savings year on year a larger number require differing levels of inflationary uplift.

### **Pressure from Demography, Demand and Specific Service Pressures**

- 7.5. Pressures arise as a result of the growing population as well as increased uptake and cost of services but in some cases pressures arise for very specific reasons.
- 7.6. The approach of the growth review exercise is to identify and project an accurate forecast of expenditure. This approach means that where expenditure pressures have been identified which have no conceivable plan for rectification they are built into the expenditure projection. This means that where in-year budget shortfalls are identified as a result of long term pressures, substantial growth can appear in the initial year, which may then be subject to further growth and inflation pressures in later years.
- 7.7. The total growth applied for this group of pressures is shown in Fig 1. Below

## **8. Fig 1. Total Gross Demography and Demand Expenditure forecast**

	2018/19	2019/20	2020/21	2021/22	2022/23
	£	£	£	£	£
Based on Growth Modelling (August 2017 exercise )					
Service Specific, Demography and Demand driven pressures					
Adult	7,331,055	7,584,146	8,195,638	8,858,117	9,640,345
Children	3,601,329	778,566	585,124	516,261	516,282
Place & Enterprise	1,136,295	106,790	106,790	106,790	106,790
Public Health	-1,885	0	0	0	0
Resources & Support	2,575,198	-591,380	227,254	430,321	751,145
<b>Total budget growth requirement</b>	<b>14,641,992</b>	<b>7,878,122</b>	<b>9,114,805</b>	<b>9,911,489</b>	<b>11,014,562</b>

## Adults Services

- 8.1. Within adults services this expenditure pressure is driven by many factors not just increasing numbers of people but requirements to provide more costly complex care arrangements. The adults growth model, which was updated in May 2017, remains a good predictor of the expenditure pressure and the growth requirement has not changed significantly in this iteration of the financial strategy. It should be noted that just a +2% change in assumptions could cause a +£8m pressure between now and 20/21. Also an added pressure is likely to emerge as the proportion of income collected in fees and charges in relation to the total cost of care declines.

## Children's Services

- 8.2. Children's services have seen a gradual increase in the number of looked after children over the last six months, which includes a higher number of UASC than experienced previously. Placements for children are increasingly expensive as an increasing number of children with complex care needs require specialist residential provision. Recent legislation has increased responsibilities in respect of financial support to Children Leaving Care, as the impact of Staying Put means that young people who wish to continue to live with their carers choose to do so, together with increases in post 16 allowances payable. The reduction of the DSG and ESG creates significant pressures within learning and skills, where functions relating to Education Improvement and other functions such as admissions, SEN, Education Welfare and those related to being the employer of staff of maintained schools remain. Whilst at a corporate level additional BCF offsets some of the loss of educational grants, the BCF has specific requirements, and thus the impact on Learning and Skills remains significant.
- 8.3. Costs for Unaccompanied Asylum Seeking Children (UASC) are now exceeding the Home Office Funding available. Some allowance has been made for further UASCs presenting in county with costly care requirements in future years though, due to the volatile nature of this group, this may not be required. Other larger costs in this category relate to the loss of grants in Children's services,

specifically Education Support Grant and Dedicated Schools Grant contributions.

### **Place & Enterprise**

- 8.4. Pressures in Place and Enterprise include the costs of subsidising the current number of bus routes, increases in rates costs as a result of revaluations and anticipated changes in relation to the New Code of Practice for Winter Maintenance which could see gritting coverage rise from 28% of the network to 40%.
- 8.5. Other pressures relates to items such as Concessionary Fares, Road Network costs and Street lighting which are all driven by changes in the population and changes in economic growth and housing development.

### **Resources & Support**

- 8.6. Within resources & support there is a budget shortfall because of the cost for IT Disaster Recovery. This has been funded to date from reserves but should now be considered business as usual. There is also a need to rectify an historic budget shortfall in IT licensing costs and support and maintenance services. Additional costs are being incurred as a result of changes in IT security activity. Provision is also made to cover the costs of legal disbursements and elections.

### **Reinstatement of unachievable savings proposals from prior years**

- 8.7. The authority has put forward and delivered a significant number of savings proposals over the years. Some £185million since 2009/10.
- 8.8. However, in a handful of cases these savings have been impossible to achieve and have created a budget pressure which requires addressing. Fig 2. Shows the total savings to be reinstated by directorate. The reasons for non-delivery are varied and some of these are discussed below.

### **Fig 2. Unachievable savings proposals from prior years**

2018/19 £	
Based on Growth Modelling (August 2017 exercise )	
<b>Budget Growth Required due to Unachieved "Red" savings in 16/17 and 17/18</b>	
Adult	0
Children	509,350
Place & Enterprise	370,000
Public Health	0
Resources & Support	41,570
<b>Total budget growth required due to unachieved red savings</b>	<b>920,920</b>

8.9. Within Children's Services it has become impossible to deliver the planned savings against the Education Improvement Service and Education Access services. The savings plans were drawn up prior to the removal of the General duties Education Support Grant. These Services have had to absorb the loss of the Education Service Grant in their budgets instead of making the original savings target. Also, a savings target in respect of short breaks has not been fully delivered. The relevant contracts have been reviewed and, whilst a greater number of short break opportunities has been secured lowering the unit cost, there has been no overall reduction in the total cost.

8.10. Within Place & Enterprise savings (income target) in relation to the University Centre occupation of the Guildhall have been reinstated as they have not been achieved to date however, these are likely to be brought forward again in future savings exercises. In the meantime the budget shortfall requires correction.

8.11. Resources & Support have been unable to achieve savings in relation to the review of printing solutions. This is likely to be brought forward again in future savings exercises.

## 9. Closing the Gap

**Table 7: The Unsolved Funding Gap**

£'000	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Revised Funding Gap</b>	<b>36,467</b>	<b>43,962</b>	<b>48,559</b>	<b>53,668</b>	<b>59,270</b>
Government one off funding	9,280	14,005	21	-21	119
Council one off funding	24,817	0	0	0	0
<b>Unsolved Funding Gap</b>	<b>2,370</b>	<b>29,957</b>	<b>48,538</b>	<b>53,689</b>	<b>59,152</b>

9.1. Table 7 above shows that there is an unresolved gap in 2018/19. It will therefore be necessary to bring forward proposals to close this gap before budgets are finalised in February 2018.

9.2. As referred to in the introduction officers and Cabinet are developing an approach to manage the worsening financial situation. Closure of the gap will rely on strategies falling under four key pillars. Each is described below:

### **1. Innovate and 2. Raise income**

9.3. An important element of closing the funding gap is the contribution of the Council's Commercial Strategy and Economic Growth Strategy as well as high profile projects such as digital transformation. It is crucial that such strategies and projects deliver savings through investment and transformational change. The following paragraphs discuss how each is currently contributing towards closing the gap.

9.4. The Council's commercial strategy sets out a number of aspirational targets. The details of these targets continue to be refined and until they are completed and risk assessed they cannot be included in the financial strategy. It is expected that proposals arising from this strategy will be brought forward before February 2017.

9.5. The Economic Growth Strategy changes the focus of previous strategies to take into account the direct financial benefit to the council of economic development and regeneration. High levels of business growth are already being delivered in Shropshire, the Economic Growth Strategy builds on this to place more emphasis on different types of growth and how such growth can help generate revenue.

9.6. It is expected that the Digital Transformation Programme will deliver savings. However, the project is in the early stages of development and as such it is not possible to fully appreciate what the redesign of the council's internal services and processes will look like. Therefore at this point we are unable to ascertain impact on cost. Once the design phase has concluded it is expected that savings and benefits will be more easily identifiable. Appendix 5 sets out the current position of the project.

### **3. Cut Services**

9.7. The Council's external auditors Grant Thornton recently held a Members' Briefing Session where they made it very clear that given the current financial position service cuts would be required and indeed expected sooner rather than later.

- 9.8. Due to the lead time that some savings proposals take to implement the sooner savings proposals can be agreed the more likely they will contribute to resolving the immediate financial problem. It is expected that a number of proposals will be brought forward for Cabinet approval in December 2017. Unless a special meeting of the Council is arranged the December Cabinet meeting will be the latest point at which savings proposals impacting 2018/19 can be approved by Cabinet in order to allow for appropriate consultation prior to Council approval in February. Appendix 4 lists some savings strategies which have been sufficiently developed to require approval at this point and Members are asked to do so. The summary value of these proposals is shown in table 8 below. Once approved the unresolved gap showing above can be adjusted. Significantly more savings will be required in the coming months.

**Table 8: Summary of new Savings proposals recommended for Approval**

<b>Total value of proposals:</b>	<b>-92,080</b>	<b>-415,300</b>	<b>-154,430</b>	<b>0</b>	<b>0</b>
<b>Directorate/Portfolio</b>	<b>18/19</b>	<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>
Adults	0	-267,600	-146,700	0	0
Childrens	-65,300	0	0	0	0
Place & Enterprise	-26,780	-147,700	-7,730	0	0
Public Health	0	0	0	0	0
Resources & Support	0	0	0	0	0



#### 4. Use of reserves

- 9.9. Appendix 3 shows the various one-off funding sources which are currently being applied to begin to close the gap. Government one off funding includes the New Homes Bonus, Rural Services Delivery Grant and Improved Better Care Funding. There is no guarantee that these will continue beyond 2019/20 however, it has been assumed that at least the New Homes Bonus will. This grant supports a corresponding expenditure line in the base budget and this would have to be removed if the grant ceased.
- 9.10. One off Council funding is comprised of freed up reserves, collection fund adjustments and conditionally released reserves. The conditionally released reserves are released on the assumption that they are replaced by Capital Receipts in future years. Any threat to the generation of capital receipts would compromise the ability to repay this funding. In previous iterations of the financial strategy more of these funds were applied to meet the gap in 2019/20 however, due to the increase in gap next year they are now required sooner.

### 10. Long Term Financial Strategy

The focus of the Financial Strategy has become short-term over the preceding 18 months. This has been driven partly by local circumstance and partly through uncertainty of proposed government changes in local authority funding. The review of council spend and resources undertaken over the summer of 2017 has delivered projections through to 2022/23 although as projections extend out year on year, the levels of assurance that can be provided will fall. In the absence of detail, any future government funding assumptions, various local assumptions have been applied to form the basis of a growth and funding model.

The Department for Communities and Local Government is currently seeking applications from authorities to pilot 100% Business Rates Retention in 2018/19 and to pilot new pooling models. Discussions have commenced with Telford and Wrekin and Herefordshire Councils to assess whether submission of a joint business case could be beneficial to our areas. The deadline for submission of business cases is Friday 27 October but assessing the potential financial implications and developing associated governance arrangements are complex issues which are still being discussed.

By becoming a pilot area for business rates, Shropshire Council would be better placed to understand some of the complex issues involved in local business rates retention. Were Shropshire to be selected as a pilot for 2018/19, it would be necessary to revise the current projections contained within this report.

**List of Background Papers (This MUST be completed for all reports, but does**

**not include items containing exempt or confidential information)**

**Cabinet Member (Portfolio Holder)**

David Minnery

**Local Member**

All

**Appendices**

Appendix 1 – Resource Projections

Appendix 2 – Expenditure Projections

Appendix 3 – Funding Gap

Appendix 4 – New savings proposals

Appendix 5 – Digital Transformation Update

## Appendix 1 - Resource Projections

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £	Assumptions
<b>Council Tax</b>	142,018,325	150,269,406	158,999,285	168,237,685	178,012,238	2018/19 onwards based on 1.75% increase in Taxbase and 3.99% increase in Band D p.a.
<b>Business Rates:</b>						
Business Rates Collected	42,373,597	43,139,711	43,919,677	44,713,745	45,522,170	2017/18 based on NNDR1, future years based on growth of 0.8% and multiplier increase of 1%
Estimated Reduction in Business Rates (s31 see below)	-2,690,070	-2,690,070	-2,690,070	-2,690,070	-2,690,070	
Top Up Grant	9,786,471	10,134,578				As per Provisional Local Government Finance Settlement 2017
			10,134,578	10,134,578	10,134,578	Assume constant from 2019/20 onwards
<b>RSG</b>	13,301,166	6,119,050				As per Final Local Government Finance Settlement 2017
			4,079,333	2,039,667		0 Assume RSG will reduce to zero by 2022/23
<b>Collection Fund:</b>						
Council Tax	500,000	500,000	500,000	500,000	500,000	2017/18 based on collection fund estimate
Business Rates	-500,000	-500,000	-500,000	-500,000	-500,000	2017/18 based on collection fund estimate
<b>NET BUDGET</b>	<b>204,789,488</b>	<b>206,972,675</b>	<b>214,442,804</b>	<b>222,435,606</b>	<b>230,978,916</b>	
<b>Grants included in Core Funding:</b>						
Improved Better Care Fund i	4,328,800	8,153,520	0	0	0	0 As per Provisional Local Government Finance Settlement 2017
New Homes Bonus	5,872,869	5,634,949	5,021,050	4,978,060	5,118,840	As per Final Local Government Finance Settlement 2017
Rural Services Delivery Grant	4,082,797	5,307,636	0	0	0	0 As per Final Local Government Finance Settlement 2017
Transition Grant	0	0	0	0	0	0 As per Final Local Government Finance Settlement 2017
Adult Social Care Support Grant	0	0	0	0	0	0 As per Final Local Government Finance Settlement 2017
s31 Business Rates Grants	2,690,070	2,690,070	2,690,070	2,690,070	2,690,070	
<b>CORE FUNDING</b>	<b>221,764,025</b>	<b>228,758,851</b>	<b>222,153,924</b>	<b>230,103,736</b>	<b>238,787,826</b>	

## **Appendix 2 – Expenditure Projections**

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
<b>Original Gross Budget Requirement</b>	<b>576,847,806</b>	<b>591,170,403</b>	<b>605,151,506</b>	<b>601,101,199</b>	<b>615,645,990</b>
<b>Inflationary Growth :</b>					
Pay	1,736,400	1,771,400	1,806,800	1,843,040	1,879,700
Prices	3,297,385	2,661,433	2,908,430	3,147,842	3,179,325
Pensions	3,555	14,575			
<b>Demography &amp; Demand</b>	<b>10,207,019</b>	<b>7,885,625</b>	<b>9,104,995</b>	<b>9,901,259</b>	<b>11,003,912</b>
<b>Service Specific Pressures</b>	<b>4,434,972</b>	<b>-7,503</b>	<b>9,810</b>	<b>10,230</b>	<b>10,650</b>
<b>Local Generated Pressures :</b>					
Elections	-700,000				
Specific Grants Changes between years	-4,673,935	1,967,488	-17,880,343	-357,580	-261,430
Changes in specific grants Feb to sep					
ASC Care Grant removed					
All other changes in 2016/17					
Adjustment to Gross budget offset by Income changes					
Adjust for Reduction to offset income reduction	-320,242				
<b>Savings:</b>					
Deduct ongoing Savings - 2017/18					
Deduct ongoing Savings - 2018/19 (green and ambers)	-583,477				
Deduct ongoing Savings - 2019/20 (green and ambers)		-311,916			
2016/17 and 2017/18 Savings not achievable	920,920				
<b>TOTAL EXPENDITURE</b>	<b>591,170,403</b>	<b>605,151,506</b>	<b>601,101,199</b>	<b>615,645,990</b>	<b>631,458,147</b>

**Appendix 3 – Funding Gap**

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Resources	554,702,502	561,188,975	552,542,212	561,977,196	572,187,782
Expenditure	591,170,403	605,151,506	601,101,199	615,645,990	631,458,147
<b>Gap in year</b>	<b>36,467,901</b>	<b>43,962,531</b>	<b>48,558,987</b>	<b>53,668,794</b>	<b>59,270,364</b>
<b>One Off Funding to be used:</b>					
Rural Services Delivery grant	4,082,800	5,307,640	0	0	0
Transition Grant - One Off	0				
New Homes Bonus - One Off	867,971	544,780	21,050	-21,940	118,840
Adult Social Care Support Grant - One Off	0				
Improved Better Care Funding	4,328,805	8,153,519			
Savings BF	8,851				
One off Monitoring underspends					
Adult Services Contingency	3,000,000				
Collection Fund Adjustments	2,100,000				
Earmarked Reserves - Freed up	6,374,722				
Free up Conditional Release Reserves	11,253,143	0			
Free up Conditional Reserves - Pensions	2,081,536				
<b>TOTAL ONE OFF FUNDING</b>	<b>34,097,828</b>	<b>14,005,939</b>	<b>21,050</b>	<b>-21,940</b>	<b>118,840</b>
<b>Remaining Gap to be Funded</b>	<b>2,370,073</b>	<b>29,956,592</b>	<b>48,537,937</b>	<b>53,690,734</b>	<b>59,151,524</b>

## Appendix 4 - New Savings proposals for approval

Total value of proposals:	-92,080	-415,300	-154,430	0	0
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Ref	Directorate/Portfolio	Counci Function	18/19	19/20	20/21	21/22	22/23	Commentary	Status
P01	Place & Enterprise / Steve Davenport	Public Conveniences	-24,780	0	0	0	0	Closure of public conveniences at Newport Road, Prees Heath, and Brownlow Street, Whitchurch.	Recommended for approval at Cabinet 18/10/2017
P02	Place & Enterprise / Joyce Barrow	Rockspring	-2,000	-2,000	-7,730	0	0	End agreement with Rockspring Community Centre	Recommended for approval at Cabinet 18/10/2017
P03	Place & Enterprise / Steve Charmley	Repairs & Maintenance	0	-145,700	0	0	0	15% reduction in R&M and office moves budget	Recommended for approval at Cabinet 18/10/2017
A01	Adults Services/Lee Chapman	Day Services	0	-96,700	-96,700	0	0	The outsourcing of Aquamira, Albert Road, Greenacres and Avalon.	Recommended for approval at Cabinet 18/10/2017
A02	Adults Services/Lee Chapman	Joint Training (part 1)	0	-77,000	0	0	0	Reduction of costs and increases to course fees	Recommended for approval at Cabinet 18/10/2017
A03	Adults Services/Lee Chapman	Enable	0	-50,000	-50,000	0	0	Secure further income from external contracts	Recommended for approval at Cabinet 18/10/2017
A04	Adults Services/Lee Chapman	Positive Steps	0	-43,900	0	0	0	Contract review.	Recommended for approval at Cabinet 18/10/2017
C01	Childrens Services/Nick Bardsley	Education Improvement Service	-65,300	0	0	0	0	A restructure of Education Improvement Service to deliver core statutory duties only.	Recommended for approval at Cabinet 18/10/2017

## Appendix 5

### ICT DIGITAL TRANSFORMATION – UPDATE

#### 1. Background

1.1. Council last received an update regarding the Digital Transformation Programme at its meeting on 18<sup>th</sup> May 2017. At this meeting it was agreed that future updates to the costs and savings of the programme would be reflected in the Council's budget and updated and monitored through the council's regular processes such as this Financial Strategy, Capital Programme and Monitoring reports.

1.2. The Council's stated desire is to deliver services at the highest quality and lowest cost compared to other authorities in everything that it does. It has therefore put in place strategies to help it achieve these aim. These strategies, including the Digital Transformation Programme Strategy are described below:

- The Economic Growth Strategy - the Council has adopted an Economic Growth Strategy with the aim to generate growth in jobs and businesses and also directly generate resources for the Council on a number of fronts including through increased business rate generation
- The Commercial Strategy – the Council has adopted a Commerciality Strategy to improve efficiency and income generation across the Council, placing more and more services on a commercial footing and creating new income streams to supplement service delivery across the authority.
- The Digital Transformation Strategy - the Council has adopted an ICT Digital Transformation Strategy that will transform IT systems, reshape services and 'back-office' functions, reducing costs, removing duplication, improving efficiency and enabling more effective service delivery across a rural geography.

#### 2. Project Structure and Governance

2.1. The Digital Transformation Strategy covers the following areas:

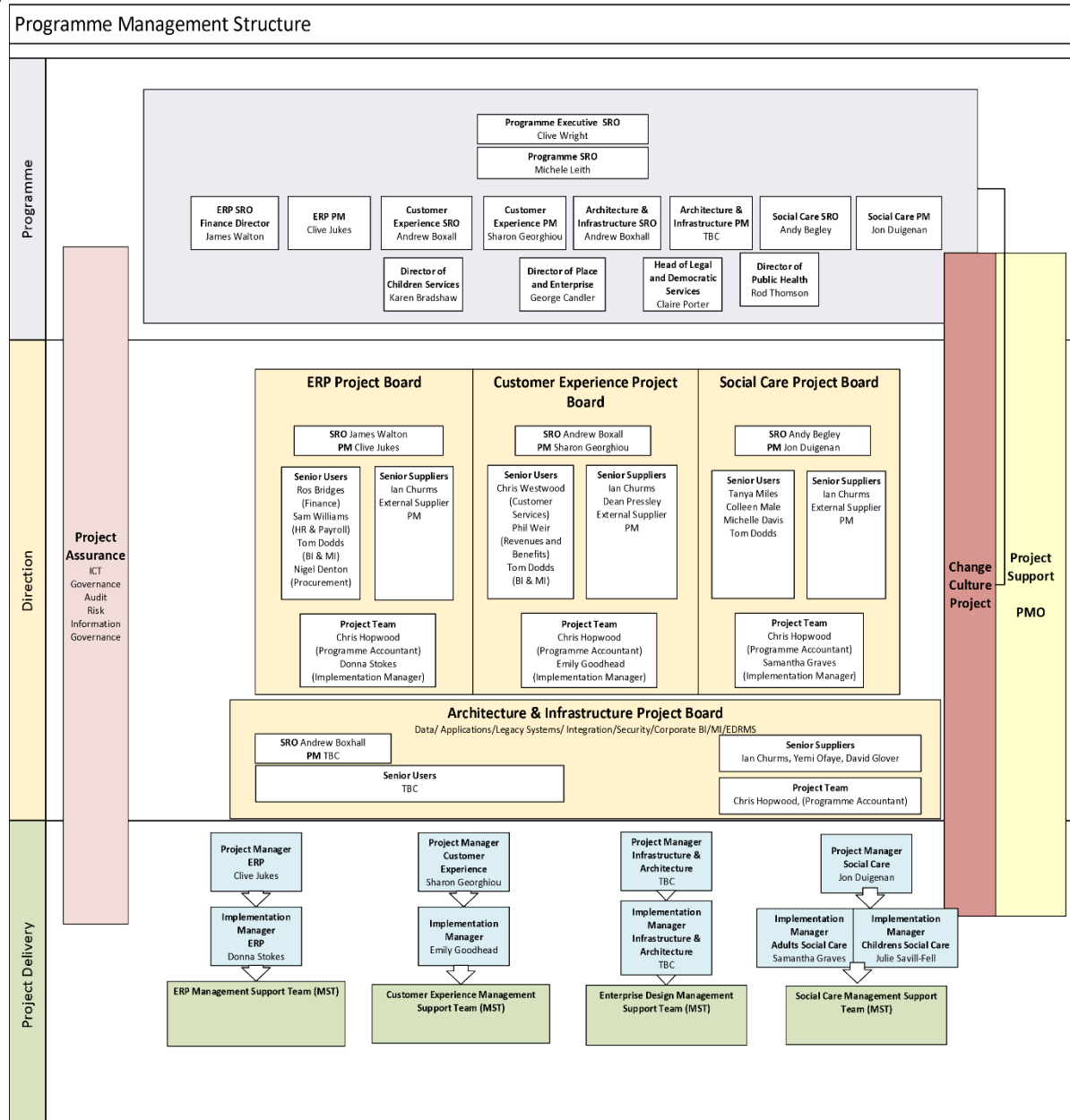
- Enterprise Resource Planning (for HR and Finance systems)
- Customer Experience
- Social Care
- Architecture & Infrastructure

2.2. The image at Fig 1.0 below sets out the Programme Management structure for Digital Transformation. The four distinct project elements of ERP, Customer



Experience, Social Care and Architecture & Infrastructure sit clearly within a framework comprising project assurance, project support, overarching programme management and project delivery.

Fig 1.0



2.3. Once the tender has been awarded and contract signature is achieved each project will go through the three stages of Design, Build and Implementation. The paragraphs below describe where each project element is in relation to these stages.

**Enterprise Resource Planner (ERP):**

- 2.3.1. The ERP contract has been awarded to Methods Business & Digital Technology Ltd. who are a delivery partner of Unit4 who are supplying their market leading solution. Unit4 are a globally successful company working with 310 Public Sector and Not for Profit companies in the UKI including 63 Local Authorities. The project is in the first stage, this being the Design stage. The Design stage is in three phases which will see involvement from both the business project team and wider business stakeholders. Firstly the project teams will run through the Value Accelerator (the name given to the public sector template version of the system) and then spend time aligning this to the Council's requirements, documenting any differences. The second phase will then work through any differences in further detail and the final design phase will wrap up any remaining issues.
- 2.3.2. Once the proposed solution is approved and signed off the project will move into the Build stage. Most of the work in this stage will be carried out by the supplier. Finally the project will move to Implementation stage when testing, data migration and training will take place.
- 2.3.3. Business Champions from within the Council staff structure have been identified and work has commenced to guide the staff to best be able to promote engagement with the new proposed ways of working.
- 2.3.4. Directors were recently engaged in a presentation to consider the key cultural changes which will be brought about by the ERP. Namely changes such as directing greater control of budgets and recruitment processes to those best placed to do so, i.e. the relevant budget holder and also introducing a 'no purchase order, no pay' approach to provide better oversight and control of procurement activity.

**Infrastructure and Architecture (I&A):**

- 2.3.5. The I&A stream of work had its overarching project definition document and Terms of Reference (ToR) agreed by main programme board in late July. This element of the digital transformation programme is primarily being managed and delivered by the in house IT team and a Programme Manager has been appointed. Since agreeing the ToR, the I&A project group has agreed to commission a specific piece of work to support the data and business intelligence needs of the organisation. A corporate approach to change management and reporting has also been documented and agreed.
- 2.3.6. In terms of changes to the Council's IT Infrastructure. The WiFi tenders are currently being evaluated, with the aim of delivering phase one (Shirehall) in November. The next elements of the I&A to be worked on will focus on programme wide communications and support, the overall infrastructure, the single logon and "MyAccount" features.

**The Customer Experience Project:**

- 2.3.7. This element of the programme will deliver a new Customer Relationship Management system (CRM) and a new Contact Centre solution. Both contracts are in the procurement phase with a number of options being considered.

**The Social Care Project**

- 2.3.8. Liquidlogic has been identified as the preferred supplier for the new Social Care Adults and Children's solution and a contract was signed with them on 31<sup>st</sup> March 2017. Design work on the new system is progressing well and plans for the testing and implementation activities are being finalised with Liquidlogic to establish go live dates and more detailed project steps.
- 2.3.9. The Business Champions workshop held recently was well received, with around 40 champions now engaged with the project team. "As is" and "To be" business process workshops are nearing completion and service manager walkthroughs have been arranged prior to full service sign off. The preparation of test systems has been progressing and Liquidlogic will be releasing an initial set of system environments imminently.

- 2.4. All of the projects are either in the very early stages of contract award or in early design phases, it is not possible to absolutely quantify the likely overall cost of delivering the solutions as additional work may be required or additional modules purchased in order to tailor the solutions to meet Shropshire's needs. This has an impact on how the financials for the project are presented and the level of assumptions that are required to be made.

**3. Financials**

- 3.1. The detailed financial position will be shown in future reports. The total approved budget for the programme, which has not been changed since last reported, is £26.2m and has been allocated across the projects as shown in Table 1.0. The budget is a mix of both capital and revenue funding.

Table 1.0

<b>Project Stream</b>	<b>Allocated Budget £m</b>
ERP	£6.894
Social Care	£4.908
Customer Experience	£5.579
Infrastructure and architecture	£3.819
Overall Programme Management	£5.032
<b>Total</b>	<b>£26.232</b>

NB: The programme management element comprises costs arising from the pre-procurement engagement activities, implementation and final sign off. Elements include costs for matters such as Programme Discovery and Business Case Augmentation, Data and Enterprise Augmentation, Data Migration Scope Definition and Roadmap, Infrastructure Migration Project, Programme Manager and Support, costs associated with Change Management and a Programme Contingency.

- 3.2. Initial project costings are based on assumptions prior to the procurement phase. As the project elements achieve contract award and contract signature and then move through the project phases it is possible to start to firm up cost and savings estimations. Future reports will consider this.