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CABINET

TO FOLLOW REPORT (S)

11 Financial Strategy 22/23 (Pages 1 - 28)

Lead Member – Councillor Gwilym Butler – Portfolio Holder for Finance and Corporate Resources

Report of James Walton, Executive Director of Resources, to follow

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Committee and Date

Cabinet
20th July 2022

Item

Public

Financial Strategy 22/23 Review

Responsible Officer

James Walton

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1. Synopsis

The Medium Term Financial Strategy (MTFS) sets out how the Council will deliver the objectives set out in The Shropshire Plan in financial terms. This latest update includes the impact of current inflationary pressures (est. £8.3m) and the Council's action to identify appropriate mitigations for this and so maintain financial balance.

2. Executive Summary

2.1. The last Medium Term Financial Strategy (MTFS) update was agreed in February 2022 by Council. Since that date, a number of factors have affected the financial outlook for the Council.

- Council has approved the Shropshire Plan
- Increased inflationary pressures
- Work on short term budget savings and
- Development of the target operating model to shape the activity of the council in the future

2.2. The MTFS has been updated to reflect these factors. It demonstrates that whilst the impact of inflation has created a further budgetary pressure in 2022/23, the Council has identified potential mitigations to address this. There still remains a risk that the inflationary pressures could rise further and so the Council needs to continue to pursue budgetary savings in 2022/23 that could help any further potential cost increases or would help towards the 2023/24 funding gap. The updated projections within the MTFS show that a short term funding gap of circa. £27.5m is yet to be resolved. The specific work on short term budget savings and the target operating model will

continue to identify solutions during the summer and autumn to close this gap.

- 2.3. In the later years of the MTFS, it is expected that there will be further pressures (not yet included in these figures) relating to ongoing inflationary pressures and the (currently) anticipated additional costs associated with adult social care reform.
- 2.4. Longer term, the Council is seeking to reduce the proportion of its budget allocated to social care in order that a greater proportion can be assigned to the maintenance and development of Shropshire as a place. The intention will be to balance forecast growth in overall costs with the anticipated growth in local revenues (including Council Tax, 'Core Spending' and income from fees and charges). In part, it is expected that this will be achieved via investment in preventative services which aim to support people, especially older people, in living fulfilling and independent lives for as long as possible.
- 2.5. The MTFS plays a vital role in this forward-planning, ensuring that the Council has a clear plan for the future, and enabling us to adjust that plan as events unfold without losing focus on our core priorities.

3. Recommendations

- 3.1. Note the action taken to mitigate the inflationary pressures identified since February 2022, and the further proposed activity to close the funding gap remaining for the years 2023/24 to 2027/28.
- 3.2. Note the proposed timetable for the development of the 2023/24 detailed budget, and the approach to doing this.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. 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 deliver a balanced budget and the budget setting and challenge process is a key mechanism in ensuring that the Council can set a legal budget for the next financial year. The five-year Financial Strategy also considers the plans that the Council has to work towards setting a sustainable budget in the future.

- 4.2. The Financial Strategy and the detailed changes necessary to deliver the agreed budget for the next financial year will consider 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.

5. Financial Implications

- 5.1. This report sets out the financial implications for the Council over the 2022/23 to 2027/28 Financial Years. Details are contained within the Medium Term Financial Strategy attached at Appendix 1.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy supports approaches towards Climate Change and Carbon Reduction reflecting the priority given to this with the Shropshire Plan.

7. Background

- 7.1. Council approved the Financial Strategy 2022/23 – 2026/27 on 24 February 2022. This report updates Cabinet with details of the impact of external pressures affecting the current financial year and the actions taken by the Council in response that impact on the financial projections within the Medium Term Financial Strategy.
- 7.2. The Council's Medium Term Financial Strategy is attached at Appendix 1. This Strategy looks at financial planning and management over a five-year period and links the council's vision and priorities with the forecasted resources and budgets. It also helps the Council towards developing a sustainable budget over the medium term.

8. Additional Information

- 8.1. Since the Financial Strategy was signed off by Council on the 24 February 2022, the economy overall has been impacted by the invasion of Ukraine, with inflation rising significantly in the areas of food, fuel, and utilities. This has resulted in cost pressures within businesses in all sectors, as well as for the general public. The Council is also impacted by these inflationary pressures, and therefore the MTFS has been updated to show the impact on the 2022/23 financial year and the remaining five years of the MTFS.
- 8.2. The Council had already initiated a number of key activities towards resolving the funding gap for 2023/24 which include:
- Development and approval of the Shropshire Plan, outlining the vision and the key priorities for the Council

- Commissioning the LGA 'Finance Peer Review' to examine the financial strategy, budget process and wider financial management at the Council.
- Launching a tactical budget exercise to look at new potential savings that could be delivered.
- Developing a target operating model (TOM) that would shape how the Council operates in the future, closely aligned to the Shropshire Plan.

8.3. The impact of these activities are included within the MTFS in Appendix 1. It should be noted that the work around the tactical budget proposals and the TOM have also identified savings that can be delivered in the current financial year, in order to address the inflationary pressures already identified. This work has already identified potential savings which may fully mitigate the current cost pressure calculated for 2022/23. Further work will progress these options to ensure these are realised, and also look to identify further savings for later years.

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

Financial Strategy 2022/23 – 2026/27

Cabinet Member (Portfolio Holder)

Gwilym Butler – Portfolio Holder - Resources

Local Member

Appendices

Appendix 1 – Medium Term Financial Strategy – July 2022

Medium Term Financial Strategy 2023/24 – 2027/28

July 2022





Foreword

Following engagement with the public, our partners, and local businesses, Shropshire Council agreed 'The Shropshire Plan' at its meeting in May 2022. This plan sets out the Council's vision, purpose and priorities, grouped into 4 themes:

- healthy people,
- healthy economy,
- healthy environment, and
- a healthy organisation.

This update to the Council's financial strategy sets out the resources available to the Council in its pursuit of these thematic objectives and begins to frame how those resources will be allocated to different activities.

A clear strategy helps us all to stay ahead of issues and to be agile in our response to new challenges. It helps us to plan ahead in a consistent and coherent way. This strategy will help us to do that, by connecting our overall objectives as set out in The Shropshire Plan to how we allocate financial resources to our many different activities.

As the introduction to The Shropshire Plan concludes: *"The challenges and experiences we have shared over recent years puts us in a strong position to step up and move forwards together and adapt our plans to meet the changing situations we face."*

This financial strategy is part of that 'stepping up' to meet the challenges of the future.



Lezley Picton
Leader of the
Council



Andy Begley
Chief Executive

Introduction

This financial strategy begins the process of ensuring that the Council's finances are aligned to the delivery of The Shropshire Plan, as agreed by Councillors in May 2022.

It also builds upon the engagement of the Council with the Local Government Association (LGA) through its 'peer review' process: We invited colleagues from other councils to spend time with us reviewing our financial affairs – including our financial strategy, our budget approach, and our wider financial management across the whole Council.

The LGA review was unequivocal in its conclusions; the technical and professional resources the Council has at its disposal are of a high standard and provide a sound foundation from which to meet the coming challenges.

The review also emphasised that the approaches we have used in recent years were unlikely to secure the efficiency and effectiveness we know we need to meet our future challenges. It highlighted that we could make changes in several areas, including

- Confidence in our ability to deliver Member and resident aspirations.
- Clarity over the financial outlook in the short-, medium-, and long-term.
- A move from minimising to managing risk.
- A transparent approach to how we will secure sustainable finances, and the consequences of failing to do so.

Lastly, despite the pressures of the pandemic, it is clear that the wider economic outlook continues to be uncertain. The invasion of Ukraine and subsequent price inflation was not anticipated in our previous plans at the current levels. We are now adjusting our plans accordingly and taking the steps needed. This is the purpose of the financial strategy – setting out clearly how our resources will be deployed to deliver our corporate objectives (as set out in The Shropshire Plan), and providing a way to navigate the uncertainty we are facing in a consistent and coherent way.

This update to the Council's Financial Strategy has been prepared with all those observations in mind and sets out our current view of the overall financial outlook for the Council. It sets the context for the work needed to prepare the detailed budget for 2023/24.



Gwilym Butler
Cabinet Member
for Finance



James Walton
Executive Director
of Resources

Medium Term Financial Strategy Summary; Outlook and forward planning



Medium Term Financial Strategy Summary

The last MTFS update was agreed in February 2022 by Council. Since that date, a number of factors have affected the financial outlook for the Council.

Significantly, the Council has agreed 'The Shropshire Plan' which sets out its vision and key priorities for the coming years. This will help to navigate the financial pressures by helping to prioritise activities and removing or reducing work where this does not directly support the objectives of the plan.

Externally, the war in the Ukraine has led to inflation increasing beyond the provisions made in the February 2022 plan, and there has been further work across the local government sector regarding the financial impact of proposed national changes to adult social care policy and funding.

Internally, work has begun to identify and address the in-year inflationary pressures, and further work has been undertaken to clarify the shape and activity of this council in the future – described as our 'target operating model'.

These factors are all included in this update.

Financial Outlook

The overview of the financial position is set out in the table below.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Resources	656.5	588.6	600.6	615.1	628.3	641.6
Expenditure	656.5	619.3	629.4	640.8	646.9	659.9
Gap in year	0.0	30.7	28.8	25.7	18.6	18.2

Changes since February:

Inflationary Pressures	8.3	9.7	10.0	10.4	10.7	11.0
Tactical budget review	-8.5	-12.9	-16.1	-15.8	-16.1	-16.1
Remaining gap	-0.2	27.5	22.7	20.3	13.2	13.2

This table shows that

- Resources and expenditure in the current year are at a high point. This is due to the release of the remaining (non-recurrent) resources to tackle the impact of the pandemic, and their expenditure on those activities.

- Resources in later years initially fall back but then slowly increase, largely due to the anticipated impact of Council Tax increases.¹
- Expenditure is forecast to grow in line with previous projections, driven by demand pressure (for social care), and previously assumed inflationary pressure (pay, supply chain, and contracts).
- The inflationary pressures seen across the world since February are set out, with some expectation of ongoing increases across the period.
- 'Tactical budget' discussions, begun early in the year to address the growing in-year inflationary pressure (also discussed below), have identified savings opportunities across the MTFS period, as shown here. These reduce the pressures already identified in February.
- This creates a material gap in future years which, based on current estimates, reduces across the period. This may change depending on, for example, the actual trajectory of inflation rates in different sectors, and any national policy announcements.

The outlook is - despite the gap values identified - a positive one: There is an opportunity to develop significant ongoing savings in the early years, which will materially reduce the gap in later years (or, indeed, secure balanced budgets in those years).

Securing recurrent savings at that level is a significant challenge but will be supported by emerging work on the delivery of a target operating model. This is discussed in further detail later in the strategy. These actions will help move the council towards a greater level of financial sustainability. It is clear that recurrent savings at this level will require the council to reposition itself – potentially reducing activity in some areas, while also developing new activities (for example, around the wider use of the internet to support transactions with residents, and the use of remote or digital technologies to supplement care provision across Shropshire – opportunities that will mean that future council services look very different to how they are today).

The clear strategic opportunity is to maximise recurrent savings as soon as possible. At its greatest extent, this might offer the opportunity to close the gap in later years, enabling the council to consider service investment opportunities or alternatives to the expected annual increase in the council tax charge.

¹ Resources now assume that 'one-off' government grants will be received at current levels for the remainder of the MTFS period. This is a departure from the February 2022 version of this strategy, which showed the overall gap at c £60m in each year. Inclusion of these grants in estimated resources – which are crucial to the delivery of social care in its current form and so are unlikely to be removed altogether from the local government sector and are widely assumed to persist in some shape or form as a result – reduces the overall gap by around 50%, as shown.

Financial Strategy – Short, Medium and Long-Term Objectives

The table above includes the estimated impact of the actions being put into place in the short term to address inflationary pressures and ensure we maintain a balanced budget. The actions being put into place include both short term measures (that is, actions in this year and next year), and actions expected to yield benefit in future years as well. A large number of these actions require either separate decisions to enable them or rely on collaboration with bodies outside the council to be achieved. There remains therefore a clear risk in the delivery of these proposals, which needs to be undertaken at pace. However, this council is aware of this risk and is actively managing it.

Not yet included in the figures above are the proposals to improve the overall efficiency and effectiveness of the Council in line with the proposals set out in The Shropshire Plan by defining our ‘target operating model’. These actions are anticipated to yield further benefits in the medium term (that is, the third and fourth year of the plan).

Overall, the longer-term strategy of the council is to ensure that, as set out in the Shropshire Plan, we are ‘living the best life’. In financial terms, this requires some rebalancing of our budgets so that less is spent on urgent social care, and more is spent on maintaining good health and independence and preventing poor health. In a similar way, we aim to provide more resources to support the growth in our local sources of income – building more homes to accommodate a growing population, but in doing so, being able to increase council tax receipts.

This will help us plan sustainably, generating income from local taxation and fees and charges levied, which, together with the ‘core spending’ funding received from government will balance the cost of the services we provide.

Preparing the budget for 2023/24

The strategic approach must be to:

- seek recurrent savings from service areas in order to address the significant budget gap identified for 2023/24 in a sustainable way
- remove use of reserves to bridge the budget gap, and if possible, make contributions in order to replenish them.

In terms of the tactics that could be adopted, a number of different approaches can be taken to planning service delivery costs. Options include various corporately led approaches, such as allocation of the estimated gap in line with budget shares (gross or net) or requesting savings options to be offered up by all areas, or, alternatively, a more

service led approach can be adopted, through which services are tasked with reviewing their own budgets in detail and then providing clear estimates of the expected level of cost pressures and the savings options that would be needed to balance those.

The risks and benefits of these relate to the relationship between services and the 'centre'. Corporately led approaches create a sense that the responsibility for financial balance sits 'somewhere else' – usually with the CFO and Chief Executive – but also set up a very clear set of targets to be achieved; these approaches are robust, but do not always promote cohesion across the Council. Service led approaches, by contrast, seek to empower services to deliver as they see fit within a resource limit and promote the idea that financial balance is part of everyone's corporate responsibility; these approaches are more inclusive and can build a greater level of corporate cohesion – but do require an organisationally mature approach at all levels.

Under both types of approach, the overall timetable will be the same – broadly set out below and in more detail in the attachment to this strategy.

- **Summertime** – prepare the first draft of pressures and savings for consideration in September
- **September to November** – iteration of the overall budget position to secure financial balance for the coming year ahead of the announcement of the level of government funding to be received in December (this will include the full alignment of the budget with the 'target operating model' plans, discussed in more detail below)
- **December to January** – finalisation of the budget plan for the new year bringing together the expected pressures estimates, proposed savings (or income generation) plans, and the government's planned level of overall financial support, and, in parallel, the consultation with local people and businesses on the proposals being brought forward.
- **February** – consideration by Council of the budget proposals; finalisation of the plan and the consequent decision on the level of the Council Tax for the new year.

Impact on the current year



Impact on the current year

Changes since February and the Impact on the 2022/23 Budget

Outturn Position for 2021/22

The Council ended the last financial year well. The final outturn was an overspend of £2.5m. This was at the lower limit of the 'control corridor' (which showed that the worst case outturn could have been an overspend of £9m). Key pressures arising in the year and likely to persist into future years were encountered in children's social care.

Directorate	Net Budget £	2021/22	
		Controllable Outturn £	Controllable Variation £
Corporate Budgets	(51,562,440)	(53,552,463)	(1,990,023)
Health and Wellbeing	2,177,434	1,755,680	(421,754)
People	186,868,390	190,592,099	3,723,709
Place	69,764,926	70,029,647	264,721
Resources	1,397,330	2,373,650	976,320
Strategic Management Board	1,170	(46,955)	(48,125)
TOTAL	208,646,810	211,151,659	2,504,849

Within this overall position, further contributions were made to specific reserves, enabling provision to be made against known future costs and reducing pressure on revenue budgets.

Inflationary Pressures

The budget for 2022/23 was set with provision made for increases in price inflation. At the time of preparing the budget, the average pressure anticipated for the year was expected to be +3% per year.

Since February 2022, the war in the Ukraine has led to inflationary increases (notably around food, fuel, and utility prices) which is affecting the economy generally.

It is now anticipated that the provision for inflation within the budget for 2022/23 will need to increase to accommodate contract costs linked to the inflation rate, and the likely national increase to the staff pay award being negotiated for 2022/23.

A breakdown of the difference in inflation assumptions between the MTFS approved by Council in February and the updated figures is provided below.

This shows that the February assumptions for 2022/23 on inflation were for 1.75% on pay, 4% on fuel, and up to 24% on utilities. These assumptions have been increased to 5.5%, 5.7% and 60% respectively for this update.

It should be noted that the latest increases reflect our understanding of the likely impact on council budgets. They remain estimates and subject to change, and, as such, will remain under review for the immediate future. The level of pay increase at 5.5% is largely driven by the near 6.6% increase in the National Living Wage, coupled with the disproportionate impact of that increase on the lower grades in the council pay structure (it does not reflect an assumption of an overall increase of 5.5% across all grades – rather, some of the lower grades will see higher levels of increase, while some of the higher grades may see little or no increase).

Similarly, fuel and utilities inflation increases may well not reach those levels overall, but are based on current advice and best estimates (utilities price increases in particular are often deferred as the council purchases energy in advance of need, so is able to secure more favourable rates).

The additional cost pressure as a result of this increase is £8.3m.

There remains a risk that inflation could continue to rise further depending on external factors and therefore more in-depth modelling regarding inflation will be undertaken over the course of the summer. This will be triangulated with evidence from the financial monitoring for the first quarter of the financial year to assess the full impact.

Schemes within the capital programme are also anticipated to experience inflationary pressures. The majority of these will be managed through reprogramming schemes to manage within existing resources, however it is possible that additional funding will need to be identified for some schemes that will require a scheme budget increase. This will be monitored during the course of the financial year.

This increased provision will be held under review to ensure it provides a reasonable balance of necessary provision against increased costs while at the same time limiting the long-term increase and its duration, where possible.

Inflation Assumptions		2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Feb Council							
Pay	%	1.75%	2.00%	2.00%	2.00%	2.00%	2.00%
	£m	3.62	2.94	3.01	3.09	3.16	3.57
Contracts	% (average)	4.00%	2.30%	2.40%	2.40%	2.40%	2.40%
	£m	2.57	1.45	1.50	1.53	1.59	1.66
Energy/Fuel	%	24.00%	6.60%	6.30%	6.10%	5.90%	5.90%
	£m	0.65	0.22	0.23	0.23	0.24	0.24
Jul MTFS							
Pay	%	5.50%	3.50%	2.50%	2.50%	2.50%	2.50%
	£m	9.04	4.46	3.29	3.37	3.45	3.57
Contracts	% (average)	5.70%	2.30%	2.40%	2.40%	2.40%	2.40%
	£m	3.57	1.45	1.50	1.53	1.59	1.66
Energy/Fuel	%	60.00%	6.60%	6.30%	6.10%	5.90%	5.90%
	£m	1.65	0.22	0.23	0.23	0.24	0.24

The LGA briefing on the potential impact on councils is available here: [Inflation and National Living Wage pressures to add £3.6 billion extra costs onto council budgets - LGA analysis | Local Government Association](#)

Interest Rate Increases

In response to the impact on the economy that the inflationary pressures is causing, the Bank of England has increased the base rate from 0.1% in December 2021 to the current rate of 1.25%.

Any increase in the base rate will translate into increasing costs of borrowing should the Council need to borrow for the Capital Programme. Accordingly, this is likely to have a corresponding impact on the revenue budget and the business cases for capital schemes. This will be carefully monitored during the course of the Medium Term Financial Strategy.

Adult Social Care Reform

The Government published outline reforms to adult social care funding late in 2021. There remain a number of key issues to be resolved, but it is likely that (based on current information) there will be a net cost to councils delivering social care. These costs are not yet factored into the later years of the Council's MTFS as their likely level is not known with confidence.

The LGA briefing on the potential impact of adult social care reform on councils is available here:

[Not enough money for adult social care reforms, say 98 per cent of councils in LGA survey | Local Government Association](#)

Local Government Pressures

There have been a number of 'public interest reports' made by external auditors in recent months. These have highlighted how the current financial pressures are affecting the financial standing of different councils. The consistent message is that securing robust technical management of the accounts together with a transparent culture of honest and open engagement between officers and Members, and with clarity on the current financial position and the likely financial outlook, is critical.

Recent Public Interest Reports are summarised below.

Authority	Issues raised
Nottingham City Council	Treatment of HRA appropriations
LB Croydon	Contracts for housing work; Fairfield Halls improvement works
Wirral Council	Need for strategic (multi-year) approach to savings plans
Slough	Incorrect accounting including reserves and MRP calculations
Warrington Council	Credit rating reduction
Northamptonshire	Inaccurate financial reporting leading to inappropriate decisions; inappropriate use of capital receipts

Internal Reviews and Developments

On 12th May 2022, the Council approved the Shropshire Plan which sets out its vision and key priorities for the coming years. This document will now help shape where the Council prioritises its activities and remove or reduce work where this does not directly support the objectives of the plan. Therefore the Financial Strategy will be closely aligned to the Shropshire Plan to ensure that the Council resources are deployed to only those areas of priority.

In order to ensure that the Council's Financial standing and processes are as robust as possible, it was agreed with the Local Government Association that a Finance Peer Review would be undertaken in June 2022. This exercise was far reaching across the Council and not only examined the financial strategy and budget approach of the organisation, but also looked at the wider financial management approaches across the organisation.

The results from the Peer Review were positive and stated that they believe that the Council should be confident in its ability to meet the challenges for the future. They believe that the actions taken by the Council to address recently identified inflationary pressures and the planned implementation of the Target Operating Model to align the activities of the Council to the Shropshire Plan, will put the Council in a good position to address the funding position. There were a number of recommendations made out of the Peer Review that will help to refine the Council's approach going forward, and the Council will be working over the next few months to ensure that it has considered and, where appropriate, implemented changes to improve our approach in the future.

In-year Budget Savings Identification

Following the early identification of inflationary pressures likely to impact on the 2022/23 financial year, the Council agreed to undertake a tactical budget review which would try to identify new areas of savings not previously considered, or to bring forward savings proposals planned for future years.

This important piece of work began in April and regular updates have been presented to Cabinet to keep them informed of progress to date and also to confirm decisions to progress where appropriate.

It is anticipated that some of the savings proposed will be subject to formal decisions and consultation, and this will be taken forward during the course of the year.

Potential savings currently being considered for 2022/23 total £8.5m. If any of those proposals are not progressed, alternatives will need to be found to the same value.

Refocus and Target Operating Model Proposals

Emerging from the 'response' period of the pandemic, the Council identified the need to embed the key benefits secured during the pandemic response, but also to reinstate some activities which were not needed during the pandemic but remain important to the good management of the Council. These initiatives and reinstatements were collectively grouped as a 'refocus' programme of work.

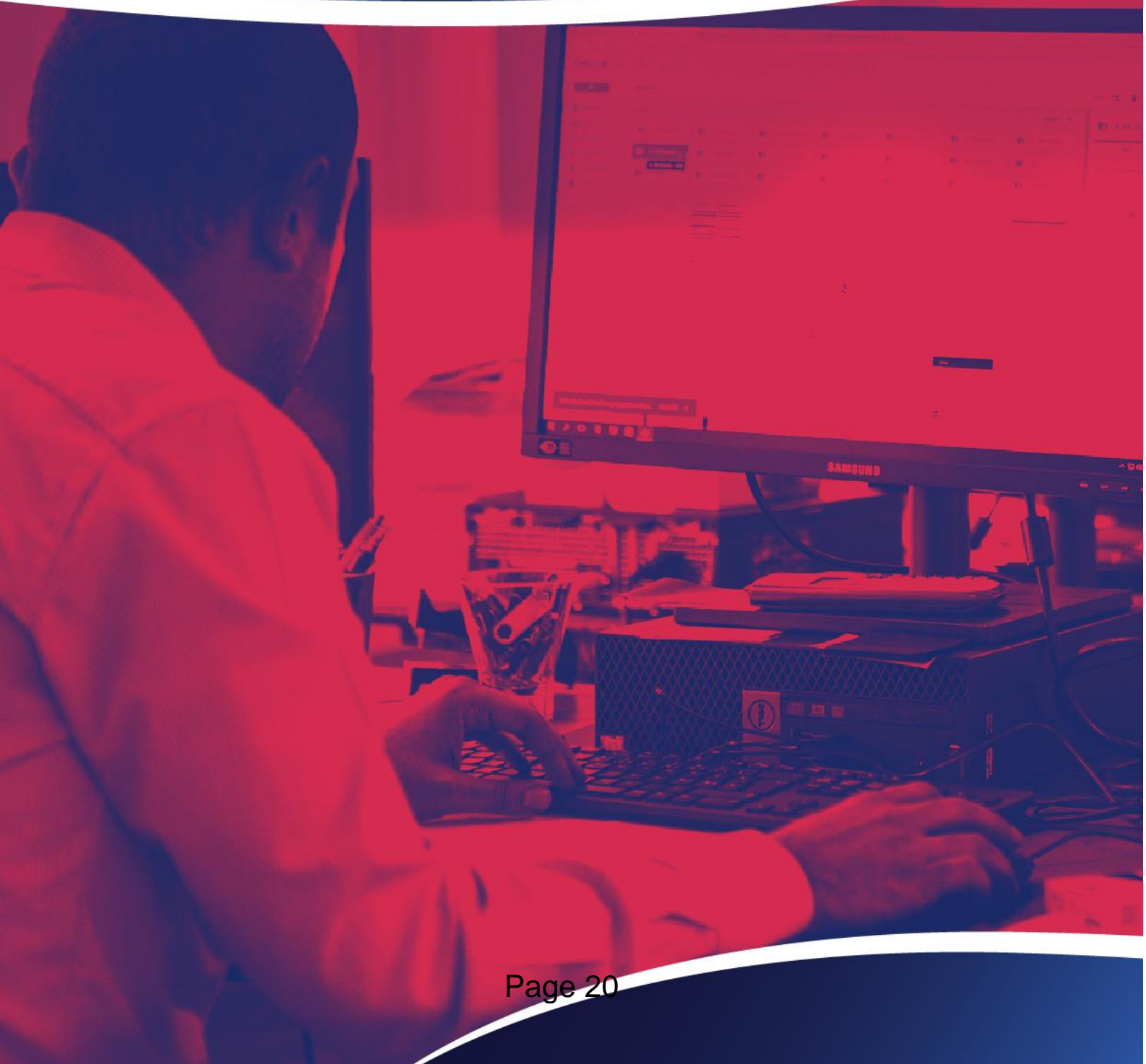
Subsequent activity has led to the scope of the refocus work being expanded to a wider consideration of the 'operating model' of the Council. The intention is to ensure that the Council does what it needs to do (and only what it needs to do) in the best way possible – that we are efficient, effective, and work together as part of one Council. This work has led to development of a 'target operating model' (TOM). It is anticipated that the TOM proposals will form a key part of the future financial strategy – either by delivering cash savings, or by enabling greater efficiency and so the capacity to do more with our available resources.

Specific proposals and projects will be developed alongside the budget process and reflected in it as appropriate. Required resources are being identified at present from a range of sources (including for example, existing base line budgets, existing staff, resources shared or formally pooled with partner agencies, specialist or other support needed, additional temporary funding required to enable specific projects, and changes to existing operating processes and models). A timeline is being prepared for the imminent launch of this programme with key messages for both those inside and those outside the organisation.

Despite the anticipated need for some time-limited investment to help implement these changes, the overall aim is to make the council more efficient and effective in its operations. This will help us to do still more from within the resources we have.

To do so will require a rigorous approach to planning and realising the benefits arising from this programme of innovation and development, providing new opportunities for how we deliver services, and asking our staff – who proved their agility and capacity to adapt so clearly during the pandemic – to continue to adapt as new opportunities and plans come forward and to move confidently into these new ways of working. This robust framework is being put into place along with appropriate resource plans.

Impact on Medium Term Financial Strategy 2023/24 – 2027/28



Inflationary Pressures

The inflationary pressures identified in 2022/23 will have a cumulative effect across the MTFS period. It is anticipated that levels of inflation will not reduce significantly by the end of 2022/23 and therefore there is likely to be ongoing pressure during 2023/34 as well.

As a result, pay inflation anticipated for 2023/24 has been increased from 2% to 3.5% and in the remaining years of the MTFS, pay inflation has been increased from 2% to 2.5%. The impact of this is that a further £1.5m has been built into the 2023/24 financial year, and around £0.3m over the remaining period of the MTFS.

Budget Savings Identification

Whilst the initial focus of the tactical budget work was to identify savings that could be used in 2022/23 to help offset the inflationary pressures identified, it was also noted that early identification of savings for the 2023/24 financial year and beyond would assist the authority in balancing the budget for 2023/24 and improve the funding gap within the Financial Strategy.

Therefore the work on the tactical budget has looked at the five year Financial Strategy period and the following potential savings have been identified:

Tactical Budget	2023/24	2024/25	2025/26	2026/27	2027/28
Potential Savings Identified	-12.9	-16.1	-15.8	-16.1	-16.1

The details of all potential savings have been presented to Cabinet to obtain political direction on which savings proposals can be progressed. Therefore additional work has been ongoing within service areas to fully consider the implications of the savings proposals and this will form the basis for consultation to take place on the proposals prior to any formal decision being taken by Full Council.

Revised MTFS Summary and Funding Gap

The impact of the inflationary pressures and mitigating savings activity outlined above has affected the funding gap over the period of the MTFS. The revised gap is outlined below, detailing the changes that have occurred since February 2022.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Resources	656.5	588.6	600.6	615.1	628.3	641.6
Expenditure	656.5	619.3	629.4	640.8	646.9	659.9
Gap in year	0.0	30.7	28.8	25.7	18.6	18.2

Changes since February:

Inflationary Pressure arising since February (staff pay, contract inflation, fuel and energy inflation)

8.3	9.7	10.0	10.4	10.7	11.0
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Actions in hand to address the gap (including: tactical budget review, revised capital spending and funding, debt management, extending some planned savings, staff budget vacancy factor)

-8.5	-12.9	-16.1	-15.8	-16.1	-16.1
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Remaining gap	-0.2	27.5	22.7	20.3	13.2	13.2
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Process for Closing the Funding Gap

In the short term, the work on the tactical budget savings will continue to be pursued to close the funding gap remaining in 2023/24 and to provide any additional resilience against any further budget pressures in 2022/23. The tactical budget work has already identified further efficiency areas for review and these will be explored in more detail to confirm whether a cashable saving can be delivered.

In the medium term the work of the TOM will help to drive out efficiencies across the Council and ensure that services provided are those as detailed in the priorities outlined in the Shropshire Plan. By delivering savings to close the gap in 2023/24 – 2025/26, the Council will be able to deliver a sustainable budget.

The Council can then continue to develop its longer term strategic plans to encourage economic growth, improved resource position through growth within the taxbase, and manage growth pressure through early intervention and prevention strategies.

Financial Stability; Reserves and balances



General Fund Balance

The General Fund balance held as at 1 April 2022 is £11.5m. This is significantly below the risk assessed level for 2022/23 which is £18.7m. This leaves the Council vulnerable to any unexpected spending pressures that may arise during the course of the year. Whilst one off savings will be sought wherever possible to mitigate against unforeseen pressures that may arise, the General Fund does need to be at a sufficient level in case this is any shortfall.

In 2022/23 a one off contribution of £4m has been budgeted bring the General Fund Balance to £15.5m (dependent on delivery of a balanced budget in 2022/23) which is considered to be acceptable, albeit below the target level.

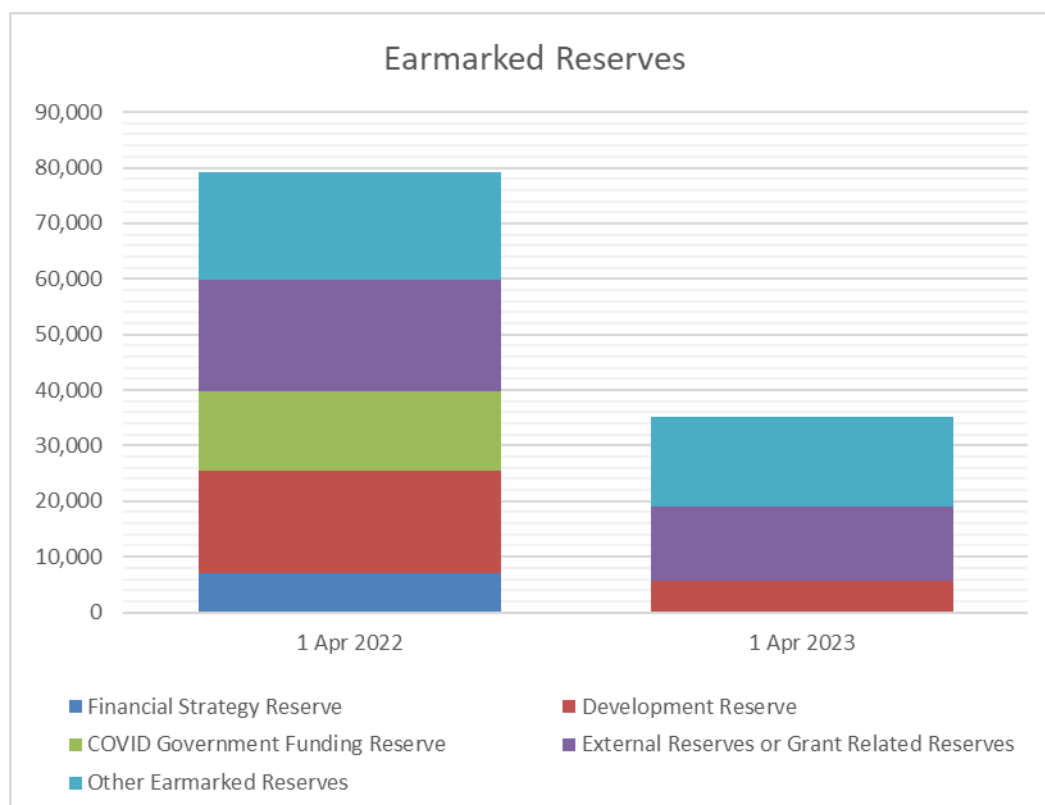
In the medium to long term financial strategy, contributions to the General Fund balance should be factored into any assumptions to ensure that the authority is resilient to any future risks.

Earmarked Reserves

The Council has assumed in previous financial strategies that it would use earmarked reserves, particularly the Financial Strategy Reserve, to help balance the budget. The Financial Strategy Reserve will be fully applied in 2022/23 and therefore this can no longer be considered for future financial years.

The total value in Earmarked Reserves as at 1 April 2022 is £79.2m (excluding schools related reserves). It should be noted that a significant proportion of these reserves have been assumed to be utilised in 2022/23 or are committed in line with grant conditions.

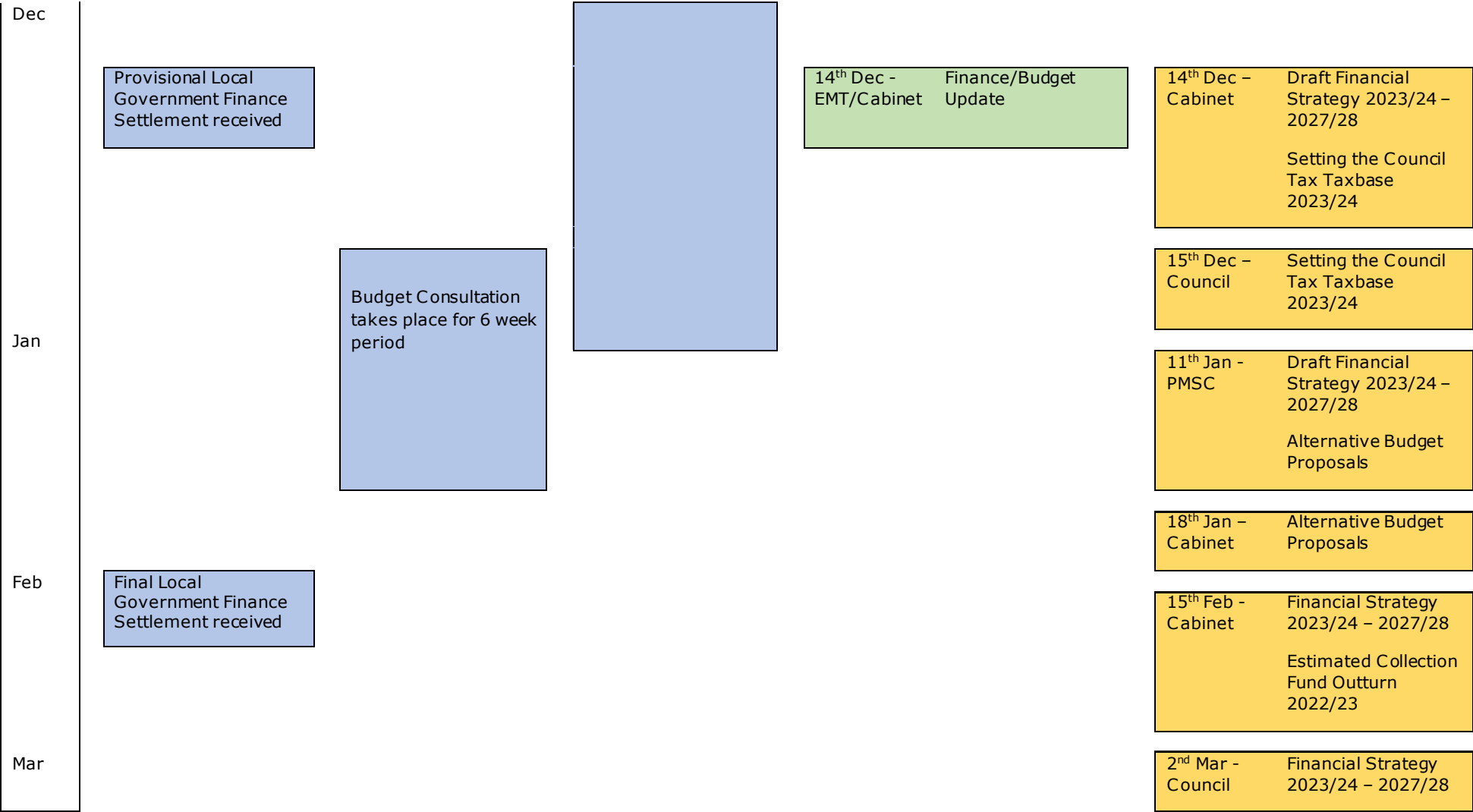
The chart below demonstrates the planned reduction in earmarked reserves in the 2022/23 financial year, with a total reduction of £47.6m anticipated to be drawn down by the end of the year, leaving a balance of £31.6m remaining. A significant proportion of the reduction relates to the use of COVID funding. Anticipated use of the Development Reserve is based on initial estimates or requirements for transformation/TOM projects (discussed above). The level and timing of funding required for this purpose is under review. The Financial Strategy reserve is anticipated to be fully utilised in delivery of the current year budget (as set out in the agreed budget plans for 2022/23).



The Council's financial strategy will also seek to minimise use of reserves in the medium term, and, where possible, to replenish them. This will afford the Council the resources to be able to deal with unexpected challenges, or to invest in further transformation and improvement of its services.

Annex 1: Development of Medium Term Financial Strategy

Month	Budget Activity	EMT/Cabinet Dates	Subject	Committee Dates	Committee Paper
Apr	New Financial Year Begins				
May					
Jun	Roll forward Financial Strategy (FS) to next 5 years and highlight any known service changes/issues including inflationary pressures				
Jul					
Aug	Identify demographic pressures for the Council and any service pressures arising in current year's budget to confirm funding gap within FS	25 th Jul – EMT/Cabinet	Finance/Tactical Budget Update	20 th Jul – Cabinet	Financial Strategy 2023/24 – 2027/28
Sep		7 th Sep – EMT/Cabinet	Finance/Budget Update		
Oct					
Nov	Council Tax Base calculated for the next Financial year	9 th Nov – EMT/Cabinet	Finance/Budget Update	30 th Nov – PMSC	Draft Financial Strategy 2023/24 – 2027/28



Medium Term Financial Strategy 2023/24 – 2027/28

July 2022

