



Date: Monday, 2 December 2024

Time: 10.00 am

Venue: SY2 6ND
Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire,

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TRANSFORMATION AND IMPROVEMENT OVERVIEW AND SCRUTINY COMMITTEE

TO FOLLOW REPORT (S)

7 Draft Financial Strategy 2024/25 - 2028/29 (Pages 1 - 12)

To consider the Draft Financial Strategy 2024/25 - 2028/29 and provide feedback to Cabinet.

REPORT TO FOLLOW

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	Committee and Date Transformation & Improvement Scrutiny 2 nd December 2024	Item
	Cabinet 4 th December 2024	Public



Healthy People



Healthy Economy



Healthy Environment



Healthy Organisation

Financial Strategy 2025/26 - 2029/30: update

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Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

Since the last Financial Strategy update in October, the Council has revised expected growth in expenditure. The Budget and then Policy Statement have indicated that our budget assumptions around government funding may be incorrect leading to a reduction in projected resources.

2. Executive Summary

- 2.1. The Council’s focus over 2024/25 has been on financial survival. While this aligns to The Shropshire Plan priority to create or maintain a healthy organisation, it does mean that the authority’s improvement plans and development ambitions have, by necessity, been paused. Members (from all groups) and officers have become increasingly aligned around the financial imperative to ensure the Council can continue to function and deliver services to local residents, communities and businesses.

- 2.2. Like all local authorities, Shropshire Council needs to set a legal budget for 2025/26 and the steps to get there require a robust budget process, an understanding of projected expenditure, income and other resources, public consultation on proposals and ultimately Council approval in February. The Council cannot set a legal budget until government funding is confirmed

through the Local Government Financial Settlement (LGFS). This process generally follows a set pattern; a budget statement, followed by a policy statement, a provisional and then final settlement.

- 2.3. The date of Cabinet in December has meant that this report has been published later than would normally be expected and takes account of the Policy Statement published on 28 November 2024.
- 2.4. The Budget and Policy Statements are insufficient, in themselves, to clarify the impact of the financial settlement on Shropshire Council, although they do give an indication. For this reason, it is proposed to produce a further Financial Strategy report for Cabinet on 22 January 2025 once the provisional settlement has been received. Given the timing of the provision settlement (the week before Christmas) it may not be possible to provide the report in a timely way to Transformation and Improvement Overview and Scrutiny Committee due to be held on 13 January 2025.
- 2.5. This report, by necessity, focusses on the elements under the Council's direct control – expenditure, growth, mitigations and savings proposals. This will enable the Council to undertake public consultation on several proposals over the winter period and consider the funding gap once assessed in the new year.

3. Recommendations

Transformation & Improvement Overview and Scrutiny Committee

- 3.1. That Transformation and Overview Scrutiny Committee consider the report alongside the work undertaken by the Collaborative Budget Group and identify any issues they wish to raise.
- 3.2. That an updated MTFS (following receipt of the provisional local government financial settlement) is produced, incorporating the results of the LGFS, and provided to Transformation and Improvement Overview and Scrutiny Committee as soon as available.

Cabinet

- 3.3. That Cabinet endorses the work undertaken through the collaborative budget process and considers the proposed amendments and assumptions made since receiving the October MTFS update.
- 3.4. That Cabinet agree the themed savings areas for public consultation further to cross-party discussion on the details to be taken forward as part of the budget consultation process.
- 3.5. That an updated MTFS (following receipt of the provisional local government financial settlement) is provided to Cabinet in January 2025, incorporating the results of the LGFS.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Council has identified a Strategic Risk in delivering a balanced budget and this is reviewed and controlled through the year based on 7 key risk areas. These are updated below, considering the outlook for the coming financial year.

Ref	Risk	2025/26 outlook
1	Savings delivery at the planned level	Savings targets are substantially lower than in previous years, based on current estimates. However, this may change as a result of national policy on how funding is allocated to councils. This will be clarified through the financial settlement.
2	Social care demand beyond budget estimates	Current estimates have seen significant work to reduce overall social care growth estimates, based on proven mitigation strategies. Current year results indicates that future estimates are increasingly robust.
3	Other budget pressures (not social care)	Primary risks (as noted in 1 above) relate to changes in the resource based, to be detailed in the local government financial settlement to be received later in December.
4	Capital receipts sufficient to support transformation and efficiency plans	Current plans indicate that transformation plans are expected to be fully funded within projected capital receipts, although this remains a finely balanced position and will be finalised through the coming months.
5	Other external factors which may lead to financial pressures	Significant regulatory interventions are not currently anticipated, although this is an area of ongoing concern and may change. Regulatory oversight continues to be a key concern in several areas, including social care, food safety, and public health. Changes made by national Government that impact on local government funding or income would fall into this category.
6	Risks arising from projects	No direct impacts are currently anticipated in the coming year, although the planned investment in several schemes will remain under review as the new national Government establishes the policy direction for the parliament.
7	Cash sufficiency (liquidity)	Cashflow is planned on a week-to-week basis with detailed analysis of recent and projected cashflows to optimise planning. Short term funding is secured as necessary to ensure overall liquidity. The generally under-borrowed position established in recent years will be corrected in the coming months as previously

		internal borrowing is externalised. This will change the overall borrowing position but will remain well within required indicators and sector averages.
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4.2. Risk and opportunities table

<i>Risk</i>	<i>Mitigation</i>
There is a risk that the assumed resources for the coming year, and through to 2029/30 will change as a result of the changed distribution of funding to local government to be detailed in the financial settlement.	That Members and Officers are properly briefed in the assessed risks (+£5m to -£15m) and aware that there are likely to be additional savings to be secured to balance the budget in 2025/26. The MTFS position will remain under review to ensure that future resources allocations are understood and planned for.
There is a risk that costs for social care through the Winter period will be higher than expected.	Current expectations are included within risk assessments and anticipated calls on the general fund balance.
There is a risk that the pressures for the coming year cannot be mitigated to the level estimated by officers.	Mitigations are all probable – the key issue is the timing of delivery. If mitigations cannot be delivered in the period to March 2025, it is expected that they can be delivered by March 2026.
There is a risk in social care that the financial instability faced by providers following the recent National Living Wage and Employers National Insurance Contributions proposals for 2025 across relevant contracted services may lead to provider failure.	The situation of social care providers will be closely monitored. Providers will be engaged with directly to discuss ways that their financial stability can be optimised and ways that the Council may be able to assist with that.
There may be opportunities in the coming years to improve efficiency (e.g. by reducing costs or increasing income) as a result of changes in national Government policy, or through new developments locally.	Opportunities to increase or expand the rate or scope of fees and charges for services will continue to be explored and updated in line with decisions taken by Members and Officers in the usual way.

5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for within the Medium Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers

review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve

- scaling down initiatives,
- changing the scope,
- delaying implementation, or
- extending delivery timescales.

- 5.2. The medium term financial strategy is a crucial document to aid financial planning in the coming years. Its purpose is to highlight opportunities and risks and so enable appropriate measures to be implemented in good time.
- 5.3. It is expected that the funding allocated to the Council by Government will change in 2025/26, but it is not yet clear what that will mean to Shropshire Council. A revised MTFS, updated for the outcomes of the financial settlement, is expected to be provided in January 2025, to support the calculation of the budget for 2025/26, to aid financial planning through the medium term and support delivery of the Shropshire Plan.

6. Climate Change Appraisal

- 6.1. It is acknowledged that changes to the way that outcomes across the Council are achieved and services delivered as a result of the mitigations and savings proposed could make positive contributions to climate change.
- 6.2. Changes to services could result in reduced trips and transport requirements, thereby reducing energy and fuel consumption, as could looking at contract requirements and seeking a change in the vehicles used. Enabling and encouraging more people to use public transport options such as Park and Ride, could help reduce car journeys into town centres.
- 6.3. In taking the steps towards financial sustainability to enable delivery of The Shropshire Plan within a reduced financial envelope, it is important that decisions consider information about future costs and risks, where possible, through an approach which explicitly considers lifetime carbon impacts and future climate vulnerability. The future costs of addressing climate change impacts are expected to exceed that of the investment needed to reduce carbon emissions and improve climate resilience, but this may not be affordable within the immediate financial envelope without external investment.

7. Background

- 7.1. All local authorities need to set a legal budget for 2025/26 and the steps to get there require a robust budget process, an understanding of projected expenditure, income and other resources, public consultation on proposals and ultimately Council approval before the financial year commences on 1 April. The Council cannot set a legal budget until government funding is confirmed through the Local Government Financial Settlement. This process generally follows a set pattern; a budget statement (30 October), followed by a policy statement (28 November), a provisional settlement (expected week

commencing 16 December 2024) and then final settlement (expected week commencing 3 February 2025).

7.2. The Chancellor of the Exchequer presented her budget to Parliament on 30 October. A range of issues were covered as the new government sets out its policy direction for the duration of the parliament. Key issues affecting the Council are set out below, but specific impacts for the Council will not be known until the provisional Local Government Financial Settlement (LGFS) is published in December.

- Employers' National insurance contribution increase by 1.2%
- National Living Wage increase of 6.7%
- Increase of 3.2% to 'Core Spending Power' of Local Government
- Additional funding for Schools via the Dedicated Schools Grant, to support Special Educational Needs budgets
- Review of Children's social care markets and provision arrangements
- Confirmation that Council Tax increases will be limited to 2.99% on the basic rate and 2% for the social care precept (a 4.99% overall increase)
- Additional funding for public transport services (including buses), highways repairs (potholes), waste (Extended Producer Responsibility) and social care.
- Fuel Duty frozen

7.3. The budget also set out significant changes to local government funding. This included a likely 2 year settlement in December 2025 (i.e. the funding for 2025/26 plus an indicative level of funding for 2026/27). This was expected to be followed in December 2026 with a 3 year settlement, 2026 to 2029, aligned to the results of the spending review (expected in spring 2025). There is reference in the Treasury document to local government reorganisation, although this is targeting 'two tier' areas (not unitaries, such as this Council), as well as a clear preference for some functions being delivered through 'Mayoral Combined Authorities' rather than via councils, with funding changes as a result.

7.4. Most importantly, the budget document also refers to '*reform of the approach to allocating funding through the LGFS, starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27*' (para 4.64, [Autumn Budget 2024 – HC 295](#)).

7.5. This last point is of central importance. The 'Core Spending Power' of the Council is currently £340m, as shown below. The 3.2% uplift to Core Spending Power could be expected to benefit the Council by £10.9m were no changes made to the funding formula. Without knowing what the distribution formula could look like, or may or may not include it was difficult to calculate with any certainty the change to Core Spending Power from 2024/25 (shown below).

Core Spending Power (CSP) 2024/25	£m	£m
Council Tax Requirement excluding parish precepts		206.32
Settlement Funding Assessment		
Revenue Support Grant	7.97	
Baseline Funding	54.90	
Compensation for under-indexing the business rates multiplier	11.13	74.01
Social Care Grants within CSP		
Improved Better Care Fund	11.86	
Social Care Grant	28.01	
ASC Market Sustainability and Improvement Fund	6.10	
Discharge Fund	2.77	48.74
Other Grants within CSP		
Rural Services Delivery Grant	8.98	
New Homes Bonus	1.81	
Services Grant (lower tier)	0.36	11.15
Core Spending Power		340.22

7.6. The Policy Statement published on 28 November 2024 provided a little more clarity and confirmed or disproved some of the assumptions made following the Budget Statement. The headlines from the Policy Statement included:

- 2025-26 is now a one-year settlement. A multi-year settlement, with new funding methodology, is expected from 2026/27.
- Referendum Principles around Council Tax are as expected (3% basic increase plus 2% Adult Social Care)
- £680m will be provided nationally through Adult Social Care grants although it is unclear whether this includes the £86m Disabled Facility Grant announced at the Autumn Budget
- A new £600m “Recovery Grant” will be provided, although this will be targeted at deprived areas and areas that are not able to raise revenue from council tax
- A new £250m Children’s Social Care Grant will be “*distributed using a new children’s needs-based formula*”
- Rural Services Delivery Grant, worth nearly £8m to Shropshire Council, will be scrapped and the funding repurposed with the promise that local authorities “*with a significant rural population will receive around a 5% increase in their Core Spending Power next year*”. It is worth noting that the referendum principle enables the government to build in a 5% increase in Core Spending Power through assumed Council Tax increase alone.
- The Minimum Funding Guarantee will be scrapped (which **guaranteed** an uplift in Core Spending Power), although no local authority should lose funding (but only **after** taking account of Council Tax).
- The Services Grant, worth over £0.35m to Shropshire, will be scrapped and repurposed
- A White Paper on Local Government Reorganisation is expected soon

- A reinstatement of the Fair Funding Review and associated consultation is expected to be published alongside the Provisional Settlement.
- 7.7. It is difficult to assess the outcome of the Policy Statement for Shropshire Council currently. Loss of the Rural Service Delivery Grant, Services Grant and Minimum Funding Guarantee could mean a reduction in government funding offset only by locally raised Council Tax. Alternatively, there is no indication what an improved position might look like.
- 7.8. Despite the significant uncertainty over resources, the estimated expenditure of the Council remains within our control. Although much of the Council budget is committed to ongoing year to year expenditure that is difficult to change, across the medium term period 2025-2030 it is possible to plan for changes to these costs in a variety of different ways. (Examples of less easily 'controllable' costs include the cost of waste collection and disposal which is predetermined and specified in the contract, and the support to and safeguarding of vulnerable children and adults who will continue to be accommodated in care settings through March and into April.)
- 7.9. Since the October update of the MTFs, the Council has been working to refine estimated levels of growth into future years. This is done by considering the 'basic' rate of increase that is expected (often a largely arithmetical process) and then overlaying values that reflect the expected mitigations that will be in place (or, more likely, are already in place). For example, key areas of cost pressure are in social care. We know, however, that there will be proportionate increases to levels of joint funding and client contributions in Adults (so reducing overall cost pressures), and similarly the Stepping Stones initiative has demonstrated that it is successful in reducing the overall numbers of children being brought into the care system through family support and earlier interventions to support children as appropriate (again, reducing overall cost pressures).
- 7.10. In this way, the Council has been able to reduce estimated future costs through mitigating the growth in budget that was initially calculated. All things being equal, this would reduce the funding gap in 2025/26. Without a clear indication of the Council's expected resources (that is, until we receive the LGFS), however, we cannot calculate any impact on the funding gap.
- 7.11. In addition to the mitigation of growth in the budget, the Council has identified several themes for savings proposals that could also be considered and implemented. These themes have been considered as part of the Collaborative Budget Process (see separate report of the agenda) and will be worked up in more detail (alongside the Collaborative Budget Group) to enable public consultation from mid-December.
- 7.12. Broad areas of focus for savings in 2025/26 were discussed by the group and the following encompasses areas that are being considered:
Main themes
- Managing demand (mainly adults and children's including increasing foster care numbers)

- Simplifying the Council (focus on outcomes, linked to rightsizing within the Council's operating model and asset review)
- Making Council Tax work better (changing the way the Council works and interacts with our customers within the Council's operating model)
- Increasing income (full cost recovery for services including Social Care)
- Considering the level of ongoing support for schools provided directly by the Council and reviewing cost recovery from Dedicated Schools Grant related to the high needs' pupils.
- Sharing services and working closer with other organisations such as Town and Parish Councils.
- Reviewing traffic management related costs and income (e.g. car parking, park and ride, residents parking and street lighting)
- Assessing options for waste minimisation
- Considering civil enforcement options including dog fouling, litter, parking and waste disposal
- Maximising council tax receipts and securing benefit by enhancing debt recovery

7.13. These areas will be discussed and expanded to provide more detail, enabling public consultation on budget proposals to be launched in the first half of December for six weeks. This will enable a budget incorporating the impact of the LGFS to be taken to Cabinet on 22 January 2025 and a final report to Cabinet on 12 February 2025 incorporating responses from the public consultation. This will be taken to Council on 27 February 2025.

7.14. The Financial Strategy for consideration by Council in February 2025, alongside the Capital Strategy, are two key documents that set the financial envelope the Council will work within. There are options to invest through the capital programme that can alleviate future pressures or generate positive demand within services. These options can be considered further ahead of the budget being set by Council in February.

7.15. In July, Cabinet was advised that total gross expenditure for the Council was estimated to be £766.512m. In October, this was updated as set out in para 7.9, and grew by £23.763m. Work completed by December has more than offset that growth through mitigations of £16.729m and savings proposals of up to £8.462m. This information is set out in the table below:

	£'000
MTFS Cabinet 17 July 2024 - 2025/26 Expenditure (including savings plans)	766,512
Changes to Expenditure Projections 16 October 2024:	
Increased inflationary growth (pay and contract price increases)	2,583
Increased service demand assumed in Children's Social Care	14,470
Reduced revenue cost of borrowing through slippage	-2,080
Reduced delivery of savings proposals previously planned for 2025/26	8,790
Total Changes to Expenditure	23,763
Review of growth assumptions 04 December 2024:	
Children's growth mitigation	-6,568
Adults growth mitigation	-5,600
Highways growth mitigation	-2,000
Other adjustments and mitigations (e.g. utilities and contract price uplifts)	-2,561
Total Growth mitigation	-16,729
Savings Proposals to be put forward for consultation:	
Estimated at between £7.227m and £8.462m	-8,462
Total Savings	-8,462
MTFS Cabinet 04 December 2024 - 2025/26 Expenditure (including savings plans)	765,084
Reduction in planned expenditure 2025/26	-1,428

- 7.16. The impact of work completed to date is a £1.428m reduction in planned expenditure when compared to estimated produced in July 2024.
- 7.17. It is worthy of note that the MTFS approved by Council in February 2024 indicated an expected gap through the medium term (the coming 5 years) of £111m¹. Taking into account the mitigations and proposed savings, and (importantly) making no adjustment to the Council's resources, the estimated gap would reduce to £61m across the same period of time (the coming 5 years). It can therefore be seen that there has been a clear improvement of £50m (or £10m per year) arising from the actions of service teams across the Council to reduce spending and staffing requirements and mitigate growth. This will be amended, however, once the LGFS is received, but, considering controllable expenditure alone, is a significant achievement.
- 7.18. The current estimated gap and savings requirement (before the LGFS) is significantly less than in recent years (which saw a new savings requirement in 2023/24 of £52m and in 2024/25 of £62.5m). Further options being explored may reduce this further – a result of the hard work engaged upon in the last two years.

¹ Calculated as £62.5m targeted savings in 2024/25, with a further gap to 2028/29 of £49m – see link: [Appendix 1 - MTFS 2024-25 - 2028-29 Council 20240221.pdf](#)

- 7.19. While not impacting directly on the ability to set a budget, the Council's 2025/26 position will have to manage any brought forward unachieved savings from the current financial year 2024/25. These savings have already been approved by Council and applied to the budget. Delivery is being actively tracked through the Council's PowerBI dashboards with visibility to the organisation. Four months of the current financial year remain to reduce the impact of any carry forward into 2025/26.

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

Collaborative Budget – Transformation and Improvement Overview and Scrutiny Committee 2 December 2024

Draft Financial Strategy – Cabinet 16 October 2024

Financial Strategy 2025/26 to 2029/30 – Cabinet 17 July 2024

Financial Strategy 2024/25 - 2028/29 - Final (including Capital Strategy and Council Tax Resolution) – Council 29 February 2024

Local Member: All

Appendices

None

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