APPENDIX 1

Medium Term Financial Strategy

2020/21 – 2024/25

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FOREWORD FROM SECTION 151 OFFICER

Shropshire Council's Medium Term Financial Strategy considers the local authority's financial position over the medium term taking into account national and local funding and resources, and compares this to the demand on the services the Council needs and wants to deliver, providing solutions to deliver a balanced budget as required by statute. It is not legal for a Council to set an unbalanced budget; by law our costs must be contained within our available funding, creating tensions between aspiration and reality, quality and necessity. It is, nevertheless, unwise to focus on the short-term delivery of a balanced budget at the expense of long-term outcomes, medium term sustainability or the achievement of wider strategic objectives.

Government funding for Shropshire Council has fallen year on year. This is a fact that cannot be disputed or avoided. The taxpayers of Shropshire are required to fund a greater and greater amount and proportion of the resources the Council needs to operate every year. In 2015/16 the Council set a net budget of £216m of which 55% (£119m) was funded by local Council Tax. Between 2015/16 and 2020/21 the amount raised by Council tax has risen by almost £45m and now raises £164m per year. The Council's net budget, however, has risen by less than £10m in these five years and now stands at £226m. As a result, Council Tax increases have not increased the amount the Council can spend in real terms; instead a marginally increased net budget is now funded at almost 73% by the local taxpayer.

At the same time, the cost of delivering services increases each year; partly due to inflationary pressures on staff costs and contractual obligations, but also from increased demand on services and changes in our demographic make-up that increase complexity of delivery and therefore cost. It is well documented that Adult Social Care costs (and increasingly Children's Social Care costs) in Shropshire are growing at an unsustainable rate. With reduced funding from government other service areas have to be cut to fund this growth.

As a consequence of the excellent work undertaken in social care across Shropshire, the number of actual service users is less than 10,000. There are over 320,000 people in Shropshire meaning that almost 97% of the population are not accessing social care services; but they are accessing other services of the Council such as highways, transport, public protection, leisure, parks and open countryside. These areas, acutely visible to us all, are the very areas that will see their funding reduced, to enable our limited resources to be diverted to social care. To almost 97% of local taxpayers this presents a simple and unfortunate outcome: they pay more money to the local authority in Council Tax, fees and charges yet receive reduced services. We've set this out in the form of a receipt, on page 25, to help demonstrate just what Council tax pays for.

We can only work with the information we have. Central Government have provided a single year Spending Round announcement for 2020/21 with no indication, at the time of writing, as to what the future will look like beyond the next twelve months. This makes planning for a long term sustainable financial position more difficult and means we must make broad estimates and assumptions about what this may look like.

We are lobbying government for a funding settlement that is fairer for all local authorities. We believe that more funding, particularly in the areas of Social Care, in necessary on a national scale. Furthermore, we believe that a fairer distribution of these increased resources will enable funds to be targeted to the areas of greatest need. The current funding formula disadvantages Shropshire due to our sparsity, our rurality, our demography and our ability to raise resources locally, from Council Tax and Business Rates. This needs to be addressed.

We know, by benchmarking our services against other local authorities, that we deliver good outcomes at average or below average costs in the majority of cases. Where our costs are above average, such as our spend on highways per head of population, we know this is because we have a relatively low population compared to the length of our roads. Our spend per head on roads looks high compared to others, but our spend per kilometre of road is very low. With the increasing pressure on social care, this spend can only be expected to reduce in the future. We can, and are, looking at ways to be more efficient in delivery, but the evidence suggests we are already above average on this and the bigger issue is simply the inequality between what resources we can raise and what we want and need to spend.

Shropshire Council's Financial Strategy sets out our plans for 2020/21 through to 2024/25. This includes almost £19m of savings proposals across all areas of the Council. This will produce a balanced budget for 2020/21 whilst retaining our levels of reserves to provide some resilience for future years. The Financial Strategy also provides significant funds for investment and growth enabling the Council to deliver on its objectives as set out in the Corporate Plan and supporting documents.

As already identified, our ability to predict the financial position of the Council beyond the next year is fraught with difficulty and as a result we are lobbying the government to provide certainty over our funding position. Regardless of the actual result, our ability to plan for the future will improve significantly once the Spending Review and the results of Fair Funding are published by central government later in the year. In the meantime, this Medium Term Financial Strategy provides details of our short-term financial position, options and direction, and provides a framework for consideration of the Council's Medium Term future.

2.1 Medium Term Financial Strategy Process

The medium term financial strategy (MTFS) spans a period of five years and is formally agreed by Full Council each year in the February preceding the first financial year of the strategy.

The first year of the MTFS represents the budget strategy for the next financial year. The compilation of the budget strategy involves detailed budget development of each service area within the Council and work begins on this process from September onwards.

The overarching five years strategy runs alongside the budget strategy work and will be informed by significant service changes, demand changes and demographic changes that the Council is facing but, often more significantly, will be informed by government announcements on the likely level of funding.

Each year the Government provide a Provisional Local Government Finance Settlement in December and a Final Local Government Finance Settlement towards the end of January. This will detail all grant funding that the Council will receive in the next financial year and will also give authorities specific regulations around levels of Council Tax that can be raised. Alongside this the Council is also carrying calculations such as the Council Tax Base to determine how many properties the Council can raise Council Tax against. This information all feeds into the Resources side of the Financial Strategy and assumptions are made regarding any uplift or inflationary changes for future years within the MTFS.

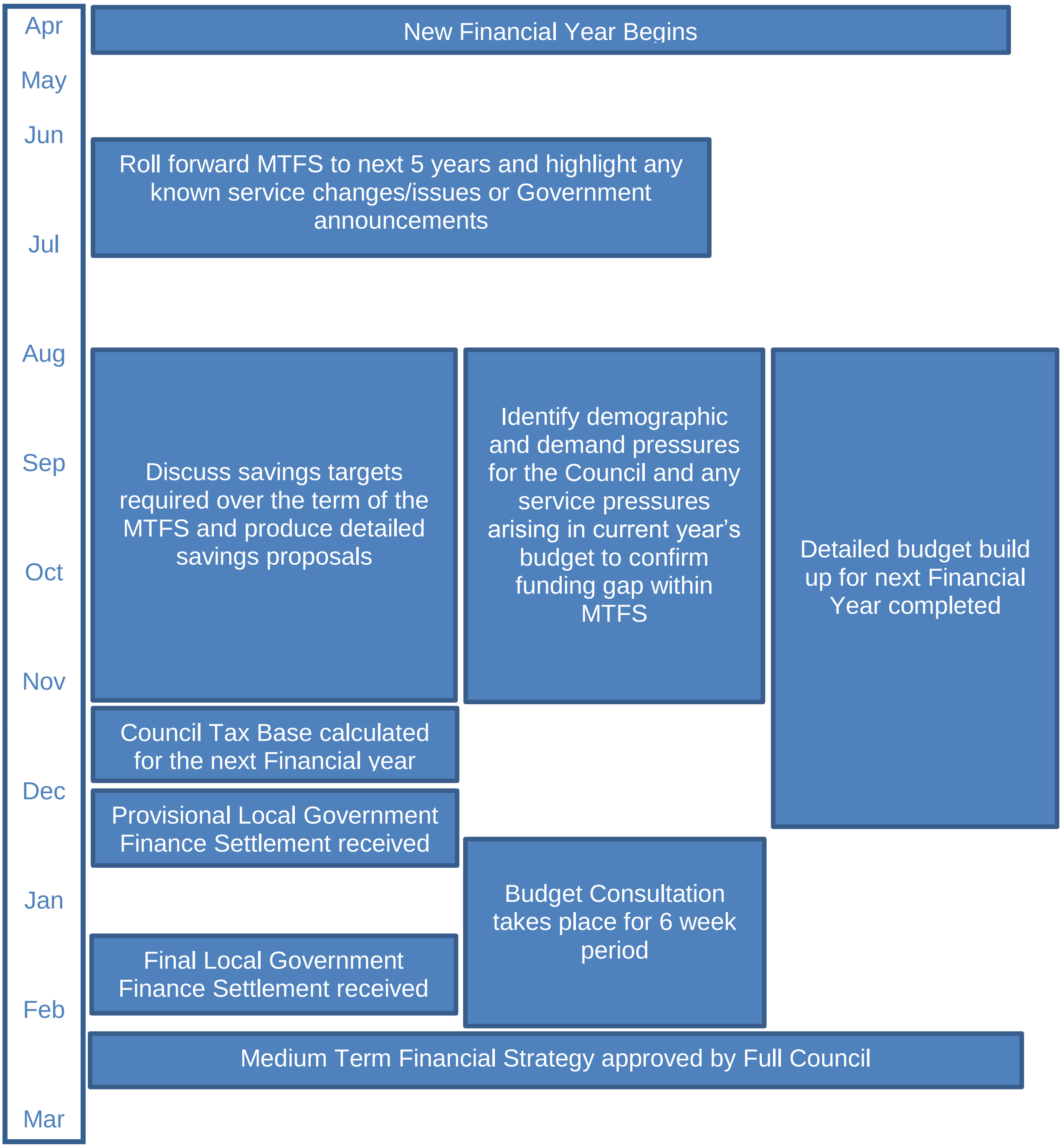
In previous years the Government have provided multi-year funding settlements which have given the Council the ability to predict with some accuracy, the level of grant income that it will receive from the Government. The last four year multi settlement ran from 2016/17 to 2019/20 and the Government has announced that 2020/21 will now be a one year settlement building up to the implementation of the Fair Funding Review which is anticipated for 2021/22.

During December and January, the Council consult with the general public regarding the budget proposals for the next financial year. Feedback from this consultation helps inform the final Medium Term Financial Strategy that is agreed by Full Council in February.

Figure 1 below details a simplified timeline of the various processes for developing the medium term financial plan each year.

MEDIUM TERM FINANCIAL STRATEGY INTRODUCTION

Figure 1 – Development of Medium Term Financial Strategy



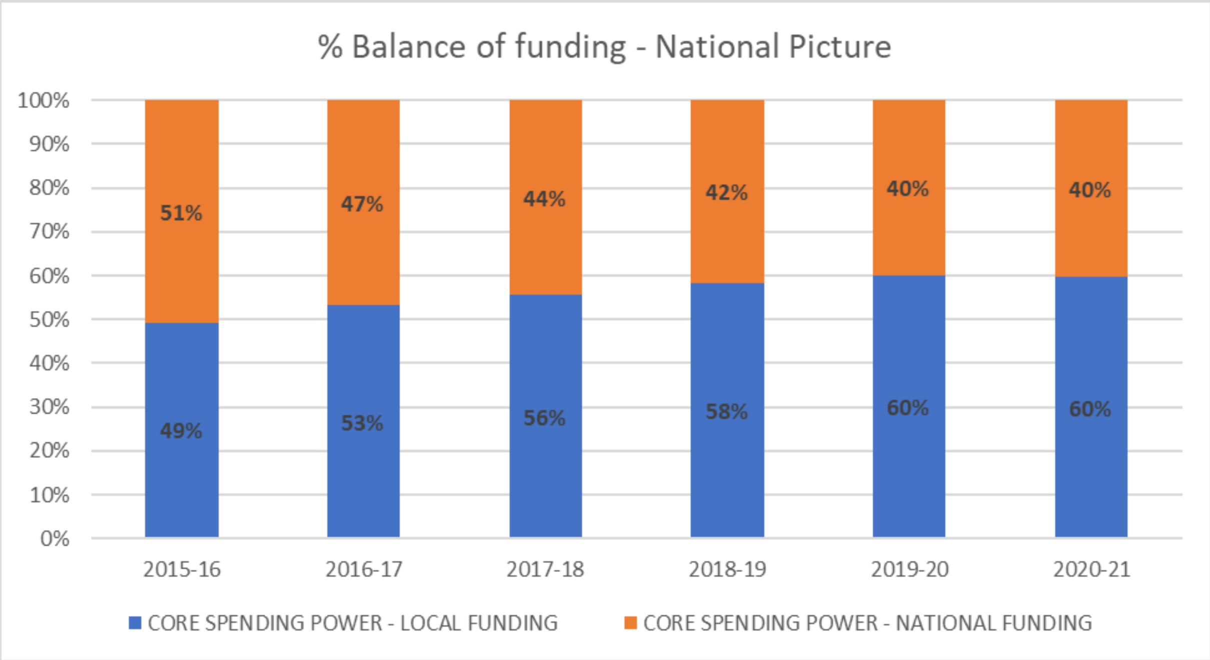
2.2 National Context

The austerity programme was initiated by the Government in 2010 and still remains in place. Over this period departmental budgets within the Government have continually been reduced in order to reduce the national debt and bring the budget deficit down.

For Local Government the last decade has seen a major change in how they are funded. Cuts to central government funding has resulted in local government as a sector, reducing spend in local public services by 17%[1] or 23% per person. The sector has become increasingly reliant on local taxes for revenue. Council tax makes up almost half of all revenues compared to just over a third in 2009/10. It should be noted that in the early part of the last decade, authorities were encouraged to freeze council tax and this has placed further pressures on this element of funding now that council tax freeze grants are no longer paid. When central government has provided additional funding to Local Government for areas of pressure such as social care, this has been in the form of one off grants. In terms of expenditure, local government now spends approximately 57% of all service budgets on social care and the costs and demand for services are continually increasing, and other service budgets such as transport, cultural and leisure services and planning have reduced.

Figure 2 below demonstrates that the proportion of national funding within the Core Spending Power has decreased from 51% to 40% over a five year period with increased reliance now on local authorities to raise funding locally instead by raising council tax.

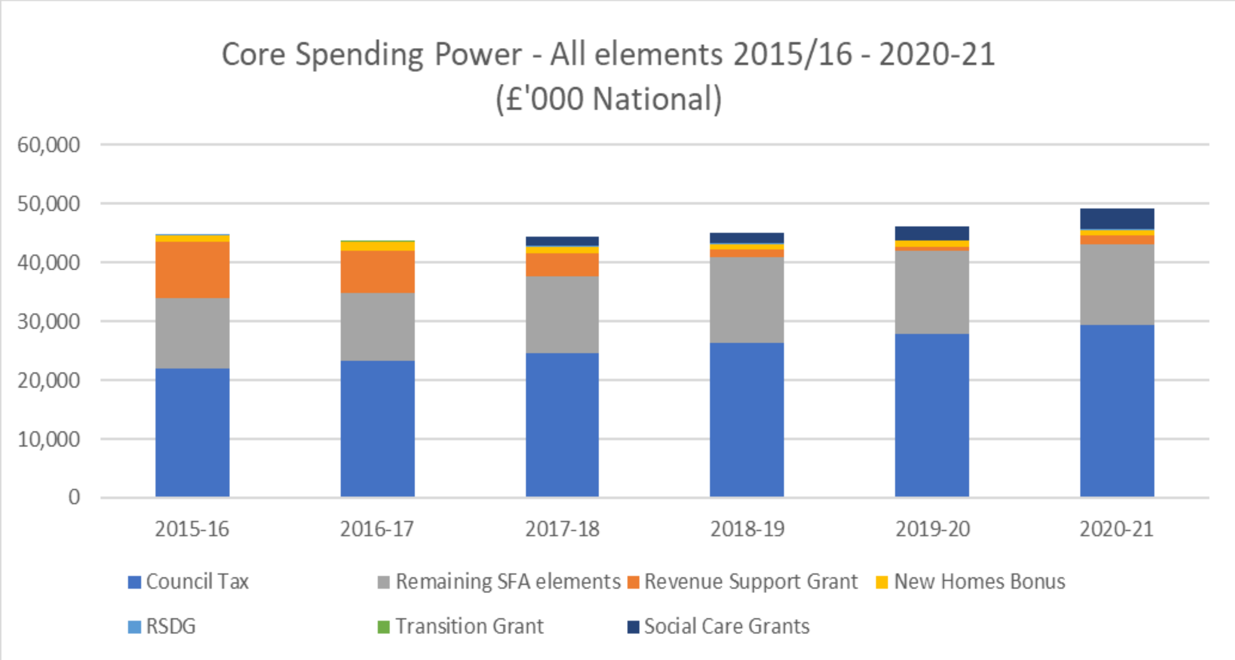
Figure 2: Proportion of Local and National Funding within Core Spending Power



The detailed analysis of funding within Core Spending Power is detailed in Figure 3 below which shows that the Revenue Support Grant has reduced significantly. It also demonstrates the introduction of social care funding by the government over the last four years, but this in no way compensates for the loss in Revenue Support Grant that has been experienced. Instead local authorities have increased council tax in an attempt to bridge the funding gap.

[1] Institute for Fiscal Studies – English Local Government Funding: Trends and Challenges in 2019 and beyond

Figure 3: Elements of Core Spending Power for the UK



English local government finance is part way through a series of major changes that will see its focus shift from being based on redistribution according to spending needs, towards more emphasis on providing financial incentives to tackle needs and increase local revenue-raising capacity. In this context, the government is undertaking a 'Fair Funding Review' which is intended to reconsider how funding is allocated and redistributed between local authorities. The review is expected to use three main "cost drivers" being population, deprivation and sparsity, together with additional cost drivers related to specific local authority service.

Alongside the Fair Funding Review, the Government have also been working on a Business Rate Retention Scheme with the intention that this is rolled out to all local authorities. This scheme will involve the amendment of business rate baselines and future changes to council's business rate income will impact directly on the local authority's funding in order to encourage councils to try and increase rate revenues rather than being dependant on Government funding for service provision.

The work on these reviews started in 2016, with an intended implementation date of the 2020/21 financial year.

In September 2019, the Local Government Secretary announced that that both schemes would be delayed until 2021/22. This was due to the "need to provide certainty and stability for next year". The Chancellor of the Exchequer also announced that the planned three year Spending Review would instead be "fast tracked" to only cover the next financial year. Additional funding allocations were included as part of this Spending Round with further specific allocations for each authority to be released in the Provisional and Final Local Government Finance Settlements.

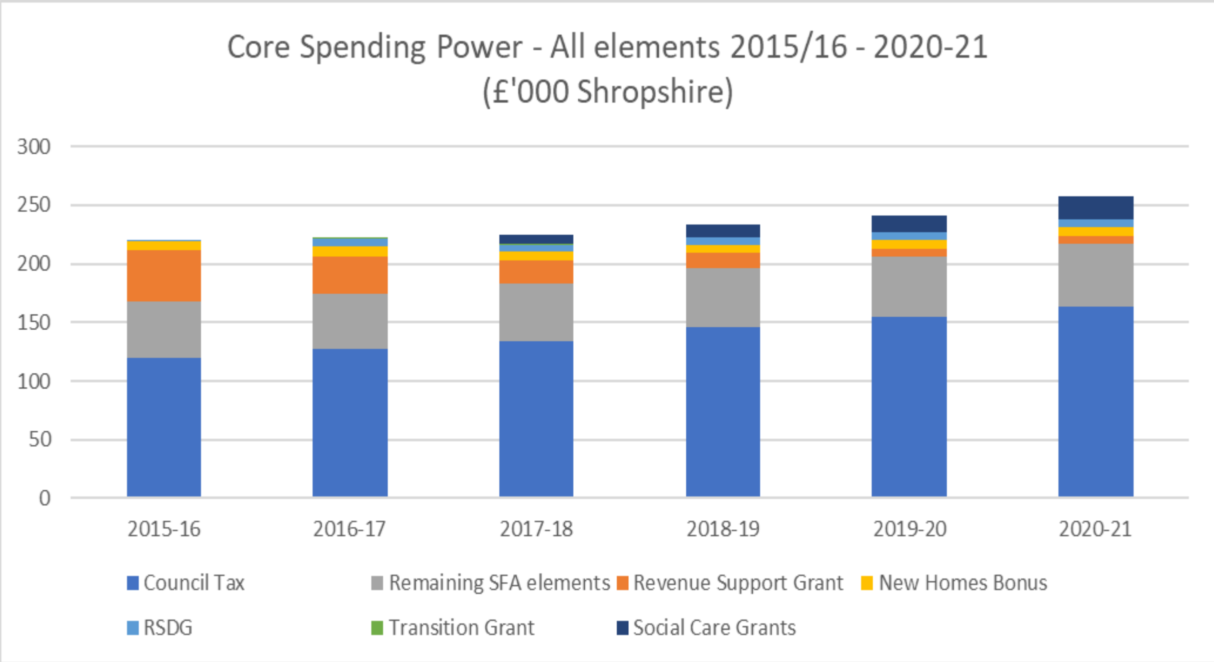
The provisional Local Government Settlement was announced on 20th December 2019, following the General Election and was based on the Spending Round 2019. It is anticipated that multi-year settlements will resume following the expected Comprehensive Spending Review in 2020.

2.3 Local Context for Shropshire

Over the last six years, Shropshire Council's core spending power has changed from £220.9m to 257.7m.

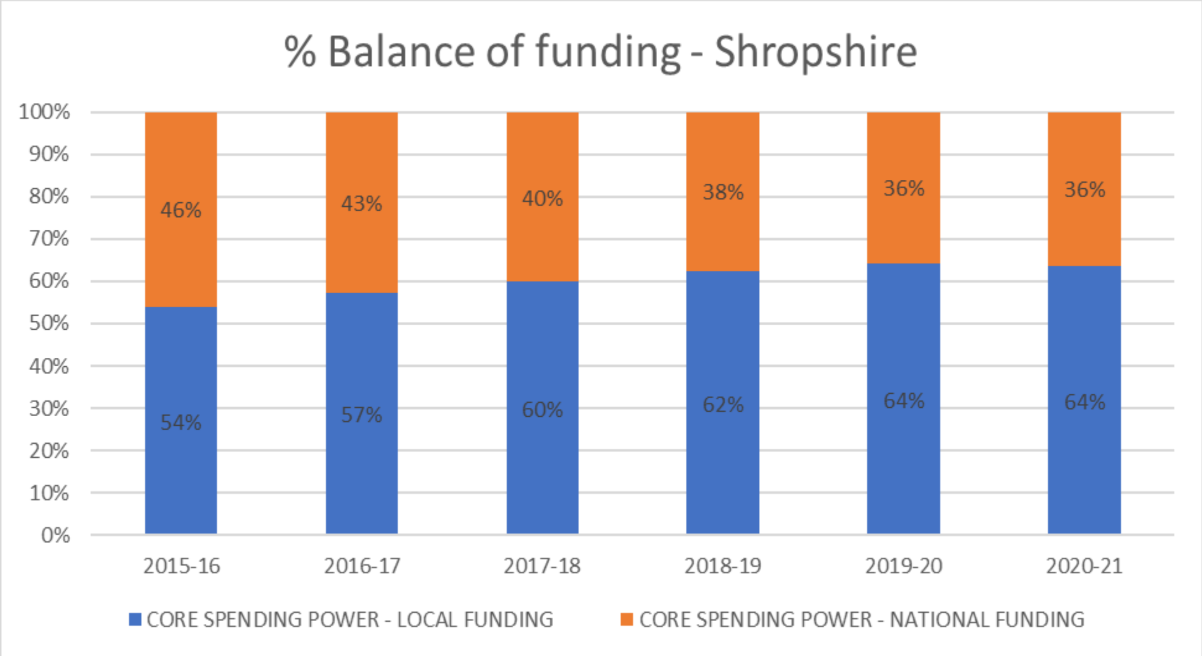
As shown from Figure 4 below, core spending power has increased marginally by around 3% per year over the five year period and the constitution of the funding for the Council has altered significantly with over this period. Revenue Support Grant has reduced by 86% over the five year period and removed £38m from the Council's resources. This has been partially replaced by the introduction of social care grants, but this only accounts for a £19m increase in funding for 2020/21 and considering this is against cumulative growth of £52m over an equivalent period, this demonstrates that the Council has had to raise council tax in order to bridge some of this gap in funding.

Figure 4: Elements of Core Spending Power for Shropshire



As the graphs below demonstrate, Shropshire Council has had to increase the proportion of local funding as national funding provided by the government has decreased gradually from 46% to 36%. The national picture shows that Shropshire has always had a lower proportion of national funding to the overall national average, and as a result, in 2020/21 we are still having to place a greater reliance on generating resources locally than the national average.

Figure 5 & 6: Proportion of Local and National Funding within Core Spending Power (Shropshire and National)



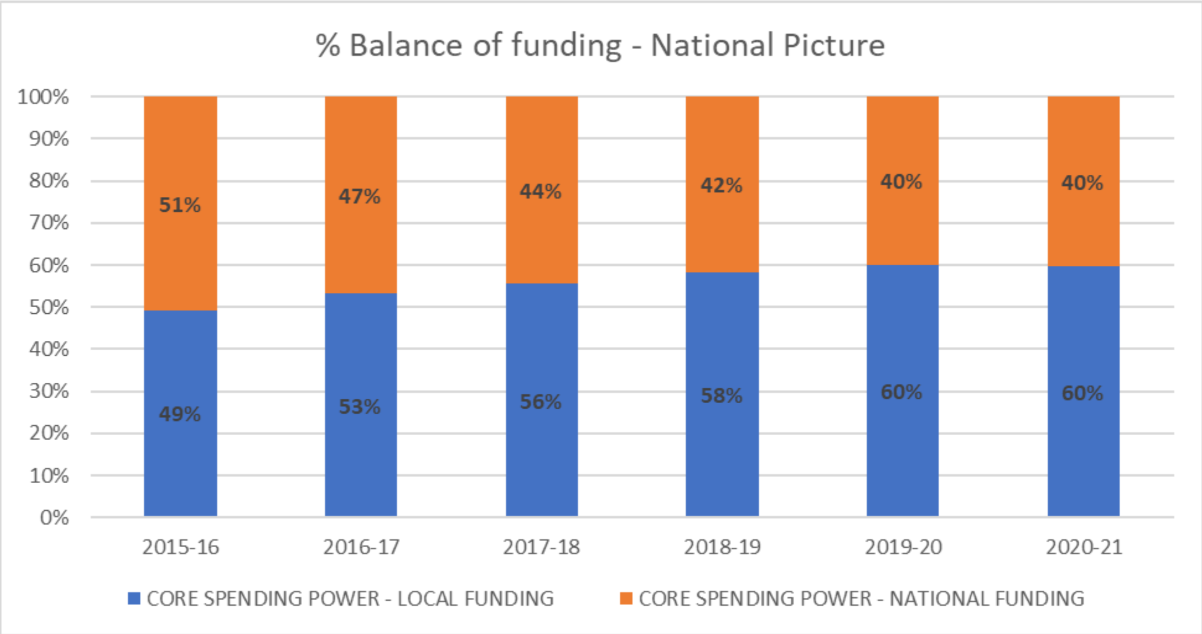
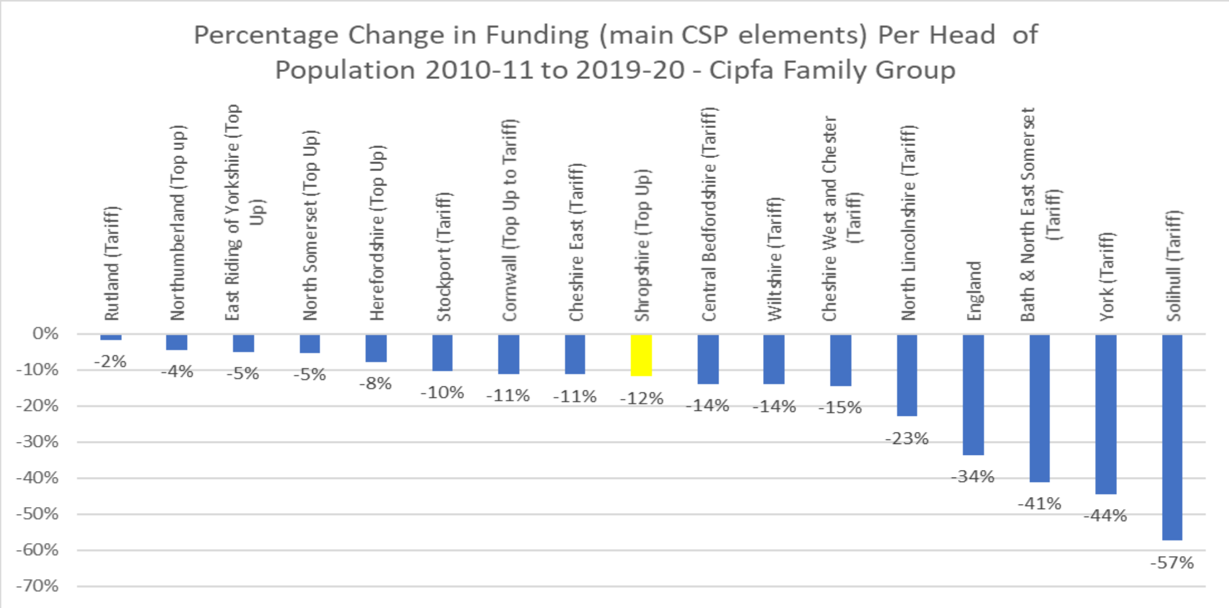


Figure 7 below looks at changes in funding per head of population between 2010- 11 and 2019-20.

Shropshire's funding per head of population over the period decreased by 12%. This is an average decrease compared to our family group.

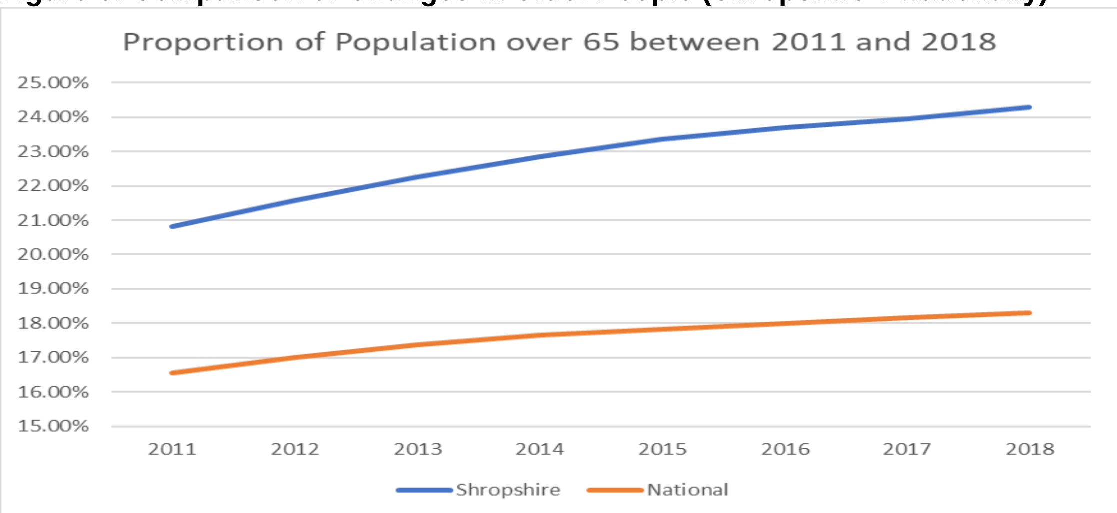
Figure 7: Percentage Change in Funding



The Government encouraged local authorities to freeze Council Tax from 2011 to 2016 by agreeing to pay local authorities a Council Tax Freeze grant to recompense them for the lost Council tax. Shropshire Council agreed to freeze Council Tax in 2011/12 in order to receive the grant and did so for the following three years. Whilst this kept Council tax low for the residents of Shropshire, and the Council received Government grants to the value of just over £18.7m to compensate for this, the fact that the base council tax income was not increasing over this period resulted in the Council having reduced funding of £6.5m over this period and has since reduced the baseline of Council tax that could have been achieved in future years. Had Council Tax been increased by 2% per annum, rather than frozen, between 2009/10 and 2015/16, the Council would have an additional £20.8m resources every year.

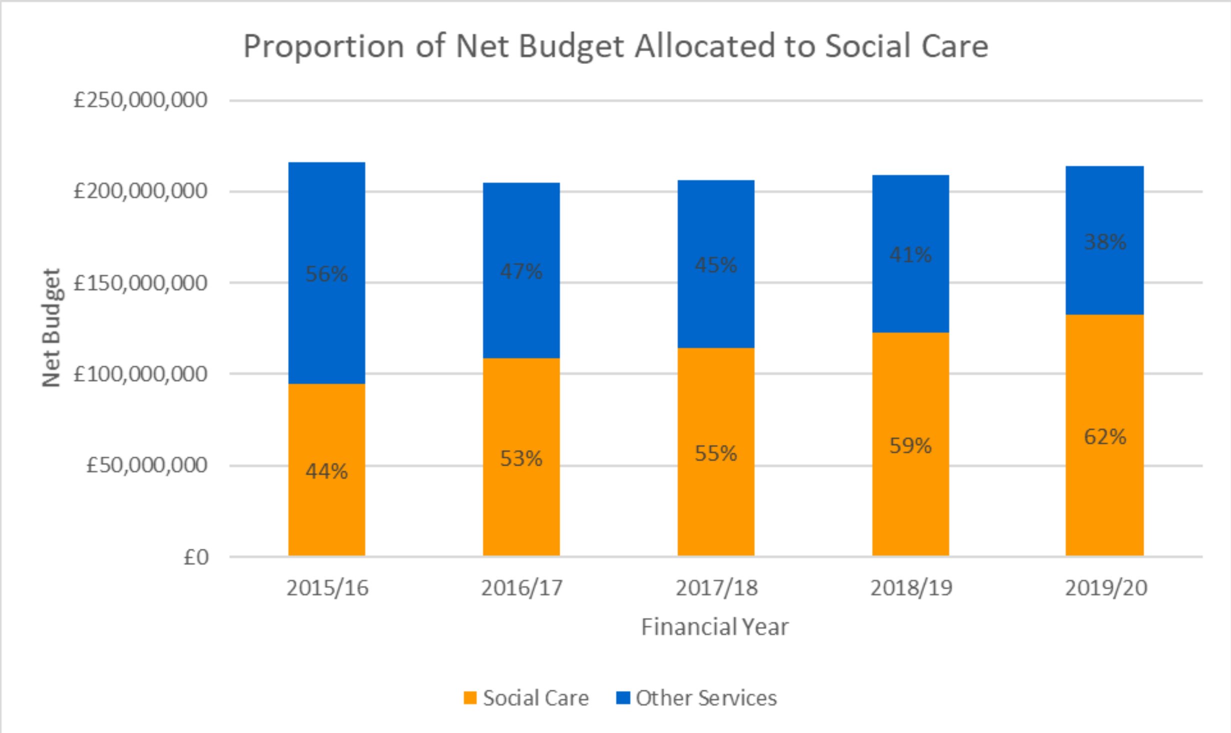
Shropshire Council has always had a greater proportion of older people than the national average, but as shown in Figure 8 below, that whilst the proportion of people over 65 is steadily increasing nationally, the increase in Shropshire is increasing by a larger proportion. As a result of this increase in population numbers, the Council is experiencing growth in Adult Social Care Costs of £8m - £10m each financial year.

Figure 8: Comparison of Changes in Older People (Shropshire v Nationally)



In the last three years, the Council is now starting to experience budgetary pressures within Children's Social Care too, which is again a common picture being experienced by upper tier local authorities. The pressure that the growth in social care costs places on the Council's budget is demonstrated in Figure 9 below. This shows that based on a relatively stable net budget over the period of 4 years, the proportion of social care budgets increases from 44% to 62% of the Council's net budget, an additional £37m. The net budget itself was £216m in 2015/16 of which 55% was funded by Council Tax, in 2019/20 the net budget has fallen slightly to £214m (despite inflation over this period) and is now 72% funded by Council Tax demonstrating a significant in removing government funding from local authorities. This also demonstrates that the budgets for other services across the Council have had to contract accordingly to enable the Council to remain within its funding envelope.

Figure 9: Allocation of Net Budget to Social Care



Over the multi-year settlement period the net cost of Social Care, after the application of government funding initiatives such as Improved Better Care Funding and Adult Social Care Support Grant, and after taking account of the additional funding raised locally through the Adult Social Care Precept has been just under £54m more than the resources available. This is demonstrated in the table 1 below.

Table 1: Comparison of Growth in Social Care Spend to Funding Received

Social Care (Adults and Children)	2016/17	2017/18	2018/19	2019/20
Growth in Spend (annual)	14,292,960	5,285,100	8,545,850	9,696,340
Improved Better Care Funding	0	216,820	4,328,800	8,153,520
Adult Social Care Support Grant	0	1,400,051	871,140	0
Social Care Funds (£3.775m share of £410m announced in Autumn Statement)	0	0	0	3,774,940
Social Care Precept (annual)	2,443,412	2,662,026	4,122,723	1,481,914
Cumulative Growth	14,292,960	19,578,060	28,123,910	37,820,250
Cumulative Funding	2,443,412	6,722,309	14,428,101	22,638,535
Shortfall (annual)	-11,849,548	-12,855,751	-13,695,809	-15,181,715
Cumulative Shortfall	**-11,849,548**	**-24,705,299**	**-38,401,108**	**-53,582,823**

The current growth model for social care has been updated for both adult social care and children's safeguarding to reflect the increased growth that has occurred in 2019/20. This shows a further increase in net budget required in social care of £13.0m for 2020/21, offset by £7.2m of additional income. The Government have provided the following information regarding the allocations of funding for social care pressures:

Table 2: Comparison of Growth in Social Care Spend to Funding Received in 2020/21

Social Care (Adults and Children)	2020/21
Growth in Spend (annual)	13,005,359
Increase in Improved Better Care Funding	1,393,823
Increase in Social Care Grant Funding	4,107,949
Increase in Social Care Precept	1,670,801
In year deficit of funding	**5,832,786**

In light of this increase in Social Care costs locally and the inadequate funding of the pressure alongside the austerity measures by the Government by reducing funding to Local Government, Shropshire Council has been faced with delivering significant financial savings year on year in order to balance the budget. Over the last ten years that austerity has been in place the Council has delivered savings of over £200m. The Council has also utilised one off sources of funding including the use of one off Government funding or reviewing and releasing earmarked reserves in order to help balance the books each year. Fundamentally the Council has been consistently managing with an underlying funding deficit for the costs of the services it provides and whilst this has been managed on a temporary basis, it is fundamental that the Council can now start to move forward to address the funding shortfall and move to a sustainable budget. Planning for this can only be achieved once the outcome of the Fair Funding Review and Business Rate Retention Scheme is announced so that the Council can evaluate the true scale of the problem that needs to be addressed in the future.

3.1 Core Government Funding

The Government provides a number of Core Funding grants which form part of the Council's Local Government Funding Settlement each year. It should be noted that a number of these core grants cannot be considered as an ongoing grant, as the Council will need to await confirmation from the Government of the Fair Funding Review to determine which of these grants will continue in their current format or which will be subsumed into the new calculation of funding based on the Fair Funding formula.

For 2020/21 the following core grants will be received:

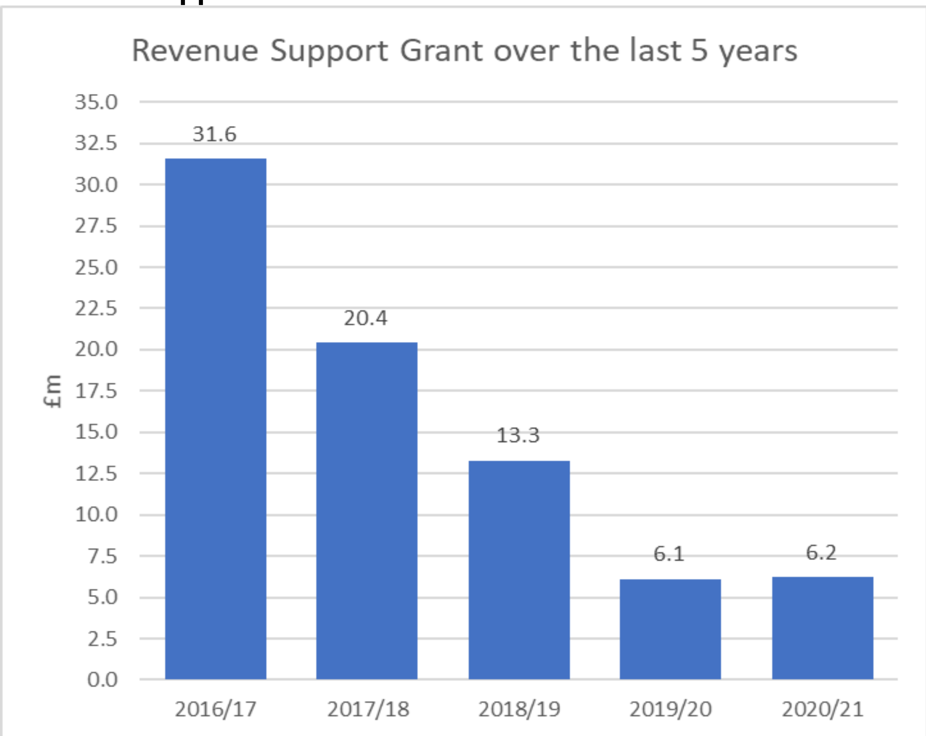
Core Grants:	**£**
Revenue Support Grant	6,218,750
Improved Better Care Fund	9,547,343
New Homes Bonus	8,366,700
Rural Services Delivery Grant	6,614,130
Social Care Grant	7,882,889
TOTAL CORE FUNDING	**38,629,812**

Revenue Support Grant

In the Final Local Government Finance Settlement for 2020-21 the Government stated that it wished to protect vital services by increasing settlement core funding by inflation. As the Revenue Support grant forms part of this funding, the level of grant received has increased marginally from the level received in 2019/20 (1.63%).

As can be demonstrated from Figure 10 below, the level of Revenue Support grant received over the last five years has reduced significantly from £31.6m to £6.2m, a reduction of 80%.

Figure 10: Revenue Support Grant Levels



Improved Better Care Fund

The Improved Better Care Fund was introduced in the 2015 Spending Review and can be spent on 3 purposes:

- Meeting adult social care needs
- Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready
- Ensuring that the local social care provider market is supported.

The Government announced that for 2020/21, allocations of Improved Better Care Fund would be cash flat from the levels paid over in 2019/20. It was however proposed that the Winter Pressures Grant which previously had a ringfence relating to supporting the local health and care system to manage demand pressures on the NHS with reference to seasonal winter pressures, would now be included within the Improved Better Care Fund, thereby removing this ringfence. The Winter pressures grant was transferred again at a cash flat level from that received in 2019/20

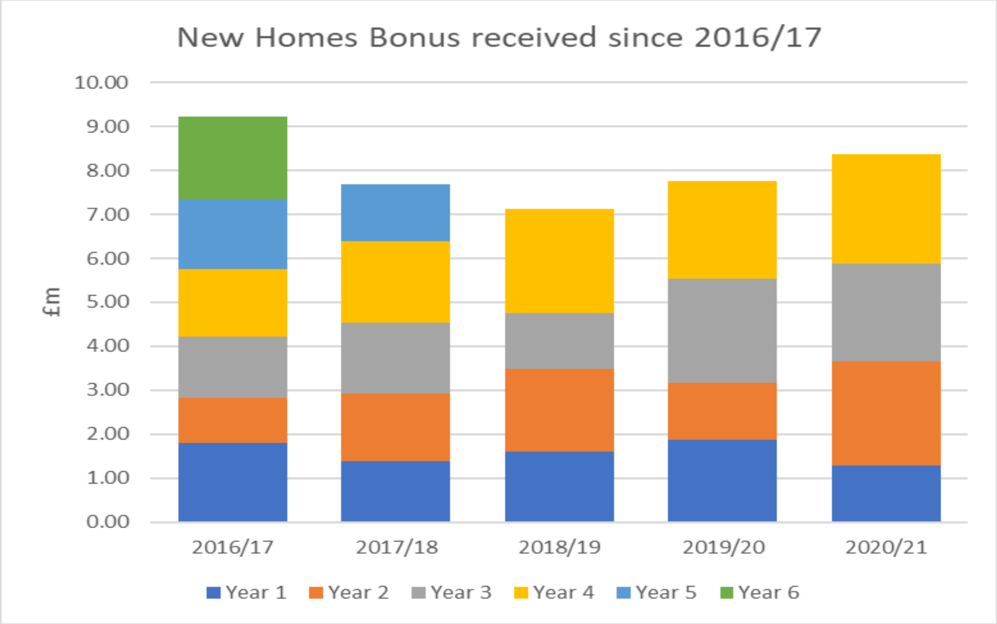
New Homes Bonus

The New Homes Bonus was introduced by the Coalition Government with the aim of encouraging local authorities to grant planning permissions for the building of new houses in return for additional revenue. Under the scheme, the Government initially matched the Council raised on each new home built or long term empty homes brought back into use for a period of 6 years. In 2017/18 the Government reduced this funding to 5 years, and then subsequently to 4 years in 2018/19, and it has remained at this level since. Local authorities are not obliged to use this funding for housing development. The future payment of New Homes Bonus is uncertain as it is anticipated that this will no longer be paid in its current format once the Fair Funding Review is announced in 2021/22.

For 2020/21 the Government committed to continuing the scheme for 2020-21 but with no commitment that legacy funding would be available beyond this.

Shropshire Council has generally received good levels of New Homes Bonus due to the levels of housing development in Shropshire over a number of years and as demonstrated from the graph below, the level paid each year has increased due to the volume of new houses being built in the area. A contribution of £5m of the total New Homes Bonus is assumed within the Council's base budget, therefore if this funding is removed in future years, there will be an immediate need to find compensatory savings for this amount.

Figure 11: New Homes Bonus Levels



Rural Services Delivery Grant

The Rural Services Delivery Grant had previously been incorporated within the Revenue Support Grant in order to recognise the additional costs of delivering services in sparsely populated areas. In 2016/17 this funding was presented as a standalone grant in order that any proposed uplifts in the funding would not be affected by the new allocation model for revenue support grant. The grant is allocated based on sparsity rather than other measures of rurality and Shropshire Council has received an allocation of grant ever since this was introduced.

For 2020/21, the Government has committed to maintaining Rural Services Delivery Grant to the level paid in 2019/20.

It is anticipated that this grant will no longer be paid in it's current form in future years as the Fair Funding Review aims to include sparsity as one of the main cost drivers to determine how funding is distributed.

Social Care Grant

In the Spending Round for 2019, the Government announced that the Government would provide an additional £1billion towards the costs of adult and children's social care. This funding would then be in addition to existing social care grants that have been paid in 2019/20 and in addition to the Adult Social Care Precept of 2%.

Allocations of this funding have been determined predominantly according to the adult social care Relative Needs Assessment, and the Government have not prescribed how much should be used towards Adult Social Care or Children's Social Care.

Shropshire Council have therefore received £5.5m of new funding in addition to £2.38m of 2019/20 Social Care Support Grant.

3.2 Council Tax

The Council collects the Council Tax for Shropshire Council, Shropshire & Wrekin Fire Authority, West Mercia Police and Crime Commissioner and for the Parish and Town Councils in Shropshire. Therefore the Council Tax Resolution that Full Council are required to approve in February of each year will detail all of these elements in agreeing the Council Tax Band levels to be charged in each Parish or Town Council area.

In December 2019, the Council approved the Council Tax Taxbase for 2020/21 which calculates the number of Band D equivalent properties by which to levy Council tax on. For 2020/21, the Council Tax Taxbase is 113,557.43 Band D equivalents which was an increase of 2.08% from the 2019/20 level.

The Council is responsible for determining the level of Council Tax to be precepted each year, however the Government does state that there are specific referendum principles that will apply to local authorities in order to try and deter Council's from raising Council tax levels significantly. The threshold for local authorities is 2% for 2020/21 which means that if any Council declares an increase in Council Tax of 2% or more, the authority are required to hold a referendum in their local area to determine whether the taxpayers believe the increase to be excessive.

For 2020/21 Shropshire Council is proposing a 1.99% increase to Council Tax. This generates an additional £3.1m for the Council.

Since 2016/17, the Government has allowed councils that provide social care to increase their share of Council tax by charging an additional adult social care precept to help fund growing pressures within this essential service area. The Government stipulate that budgets for Adult Social Care must increase by at least the amount that the Adult Social Care Precept generates, allowing for levels of efficiency savings which could be expected within such service areas.

The Government stipulate as part of the Local Government Finance Settlement the percentage increase that is permitted for the Adult Social Care Precept before a referendum of the local electorate is required. For 2020/21 the permitted maximum percentage increase as prescribed by the Government is 2% and Shropshire Council plan to apply a 2% percentage increase to the precept for this purpose.

The total proposed increase in Council tax is therefore 3.99% for 2020/21 (1.99% for Council Tax, 2% for Adult Social Care Precept) and this generates the following Council tax precept for a Band D:

2019/20 Band D	**£1,388.23**
Core Council Tax Increase (1.99%)	£27.63
Adult Social Care Precept (2%)	£27.76
2020/21 Band D	**£1,443.62**

When this Band D figure is used against the Council Tax taxbase, this generates total council tax of £163,933,777 which represents 28% of the Council's total gross budgeted funding for 2020/21.

In future years assumptions have been made that Council tax increases will remain at 1.99% and that the Social Care Precept will continue at 2% giving a total increase of 3.99% each year.

As the Council collects Council tax from taxpayers, it is required by statute to administer Council Tax within a separate account which is known as the Collection Fund. Each year the Council will pay into the Collection Fund all council tax receipts it receives from taxpayers less any discounts or exemptions that are due, and then receives the budgeted precept from the Collection Fund. When setting the Council Tax taxbase the Council assumes a percentage collection rate for Council tax as it is not always possible to collect 100% of income due to various circumstances. For 2020/21, Shropshire Council has assumed a 98.3% collection rate which is based on previous actual collection rates achieved (this is top quintile performance). If the Council manages to overachieve this collection rate, or new houses are built over and above the budgeted increase in the taxbase, then the Collection Fund generates a surplus in the year. Clearly, there is an opposite effect if Council Tax is overestimated.

Each year a calculation is performed to establish what the anticipated Collection Fund surplus or deficit is and this is then distributed to the main precepting bodies in the following financial year i.e. Shropshire Council, Shropshire & Wrekin Fire Authority and West Mercia Police and Crime Commissioner.

The collection rate only assumes the collection of current year debts, but action can be taken by the Council to recover any uncollected debts from previous years which would deliver a surplus in the collection fund. To demonstrate the action taken to recover old debts, in 2018/19 the outstanding debt at the year end was £12.068m however 9 months later the equivalent debt stood at £9.629m, thereby delivering a further £2.4m into the collection fund.

For 2019/20, the estimated Council Tax collection fund surplus is £3.355m and Shropshire Council's proportion of this is £2.758m. This can then be used in the total funding for the 2020/21 budget. This balance has occurred, in the main, due to additional recovery of council tax debts relating to previous years.

3.3 Business Rates

Business rates are collected from local businesses by Shropshire Council and are distributed to the parties detailed below in the following proportions:

Shropshire Council	49%
Shropshire & Wrekin Fire Authority	1%
Central Government	50%

The rateable value of business properties is established by the Valuation Office and this determines the level of business rates to be paid.

The planned Business Rate retention review will establish a baseline of funding from business rates so that local councils can benefit by stimulating growth in the number of businesses and retain a greater proportion of that growth to help fund services. Exact details of the scheme are yet to be announced, so it cannot be determined whether the Council will benefit overall from the change in funding at this point.

For 2020/21, the Council is budgeting for total Business rate income of £40.7m.

The Council also benefits from the collection of business rates from renewable energy projects such as solar and wind farms and anaerobic digesters in Shropshire. The rates collected from these are allowed to be retained fully by Shropshire Council and therefore are not distributed via the percentage listed above for standard business rates. In 2020/21 the Council is collecting £0.941m from these schemes and as this amount can fluctuate each year, we have assumed a base level of £0.900m for future years.

The Government also pays over a top up grant to the Council in respect of Business Rates. This represents the difference between the Council's business rates baseline (which is the amount that is expected to be collected through the local share of business rates) and its baseline funding level (which the government determines through its funding formulae for Local Government). The total of top up grants is neutral across the whole of the sector and some authorities have to pay a tariff rather than receive a top up grant. For 2020/21 Shropshire Council is receiving a top up grant of £10.03m.

As the Council collects Business Rates from local businesses, it is required by statute to administer Business Rates within a separate account which is known as the Collection Fund. Each year the Council will pay into the Collection Fund all business rate receipts it receives from taxpayers less any valuation appeals that reduce the level of income due, and then receives the budgeted precept from the Collection Fund. The Council will again benefit in year from any new businesses coming into the county during the course of the year and changes to rateable values that may take place and so in this situation may generates a surplus in the Collection Fund. Alternatively, if businesses leave during the year, then or we have to write off more bad debts than anticipated, we may have a deficit for the year.

FUTURE REVENUE RESOURCES

Each year a calculation is performed to establish what the anticipated Collection Fund surplus or deficit will be and this is then distributed to the main precepting bodies in the following financial year i.e. Shropshire Council, Shropshire & Wrekin Fire Authority and Central Government.

For 2019/20, the estimated Business Rate collection fund surplus is £1.119m and Shropshire Council's proportion of this is £0.891m. This can then be used in the total funding for the 2020/21 budget. This is mainly due to the inclusion of £0.672m for energy renewable properties.

3.4 Non – Core Government Funding

The Government provides a number of non-core government grants towards the costs of services. These are generally in relation to specific services and so will have specific conditions attached to them, however there may be some grants paid over that are without specific ringfences against them.

The most significant examples of non-core government grants are :

- Dedicated Schools Grant
- PFI Credits
- Public Health Grant
- Pupil Premium Grant
- Rent Allowance Subsidy for Housing Benefits
- Rent Rebates
- Business Rate Retention Scheme (Section 31 grant to compensate for various reliefs given to businesses)

The value paid in these grants is determined each individual year therefore it is not possible to predict future grant levels for these. The Council sets ringfenced expenditure budgets to match these non-core government grants, therefore any reduction in funding experienced will be matched by an equivalent reduction in the expenditure that the grant relates to.

The total budgeted non-core government grants for 2020/21 is £220.112m.

3.5 Fees and Charges

The Council also generates income to fund services by charging for services that it provides. This has increased over the last six years and has become an important and an increased proportion of the council's total income as demonstrated in the charts below. This has been necessary due to the reduction in Revenue Support Grant by the Government over the same period.

Figure 12: Budgeted Fees and Charges Income

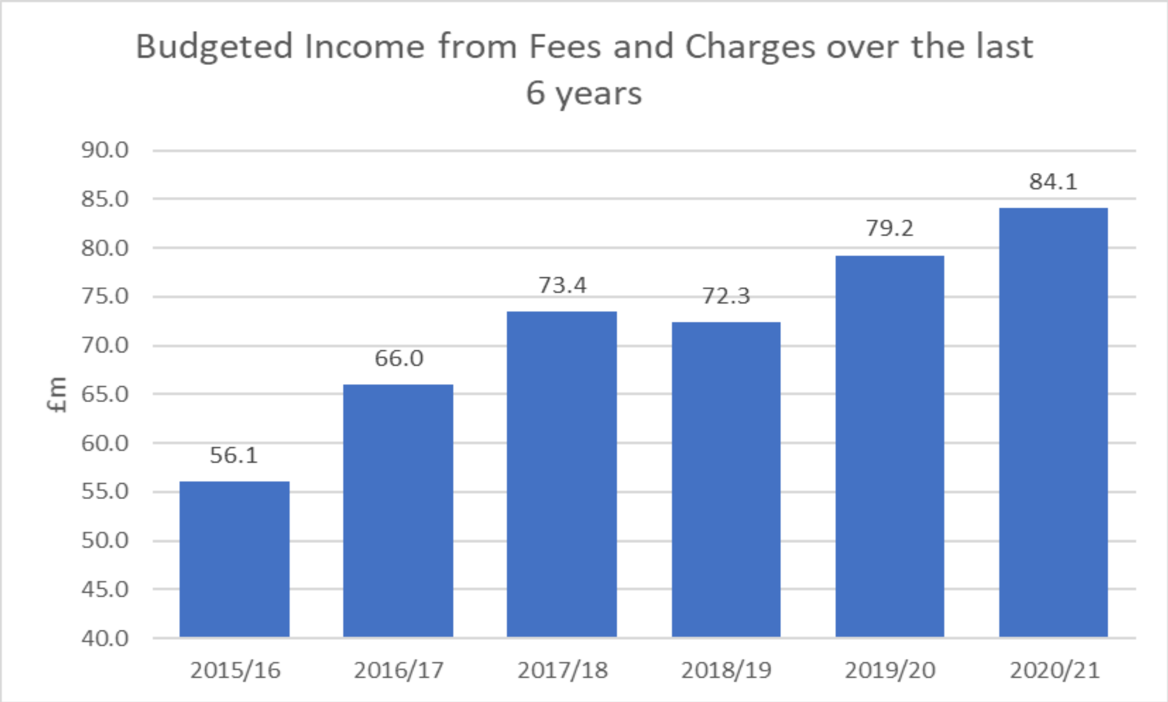
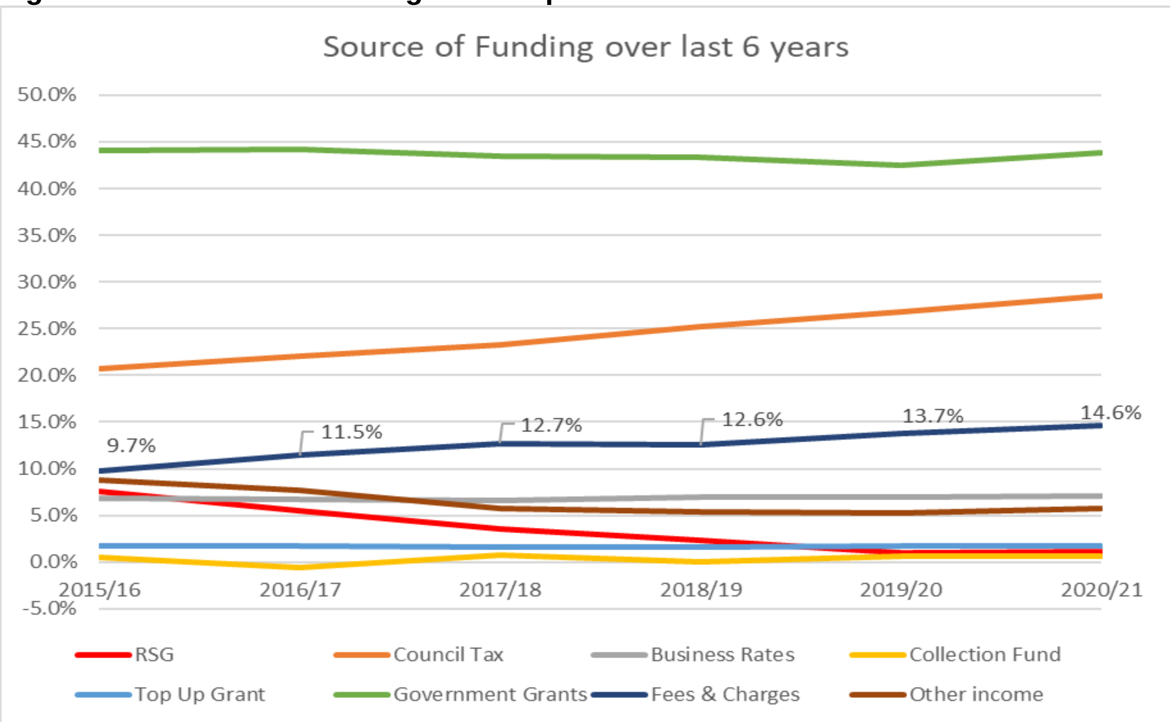


Figure 13: Sources of Funding for Shropshire Council



FUTURE REVENUE RESOURCES

The Council has the power to charge for some services under various legislation. The Local Government Act 2003 provides clarity over charging powers and is clear that a local authority can charge for discretionary services on the basis of recovering the full costs of providing the service but that it should not make a profit year on year. The same Act also covers local authority's power to trade whereby a profit/surplus can be made as long as trading is carried out through a company.

A significant proportion of the total income achieved through fees and charges is based on statutory income, where the Government prescribe the level of fees to be charged. The remainder is achieved through discretionary fees and other income and Full Council approve the fees and charges to be applied for the coming financial year each February.

For 2020/21 the total budgeted income from fees and charges is £84.1m.

3.6 Total Funding

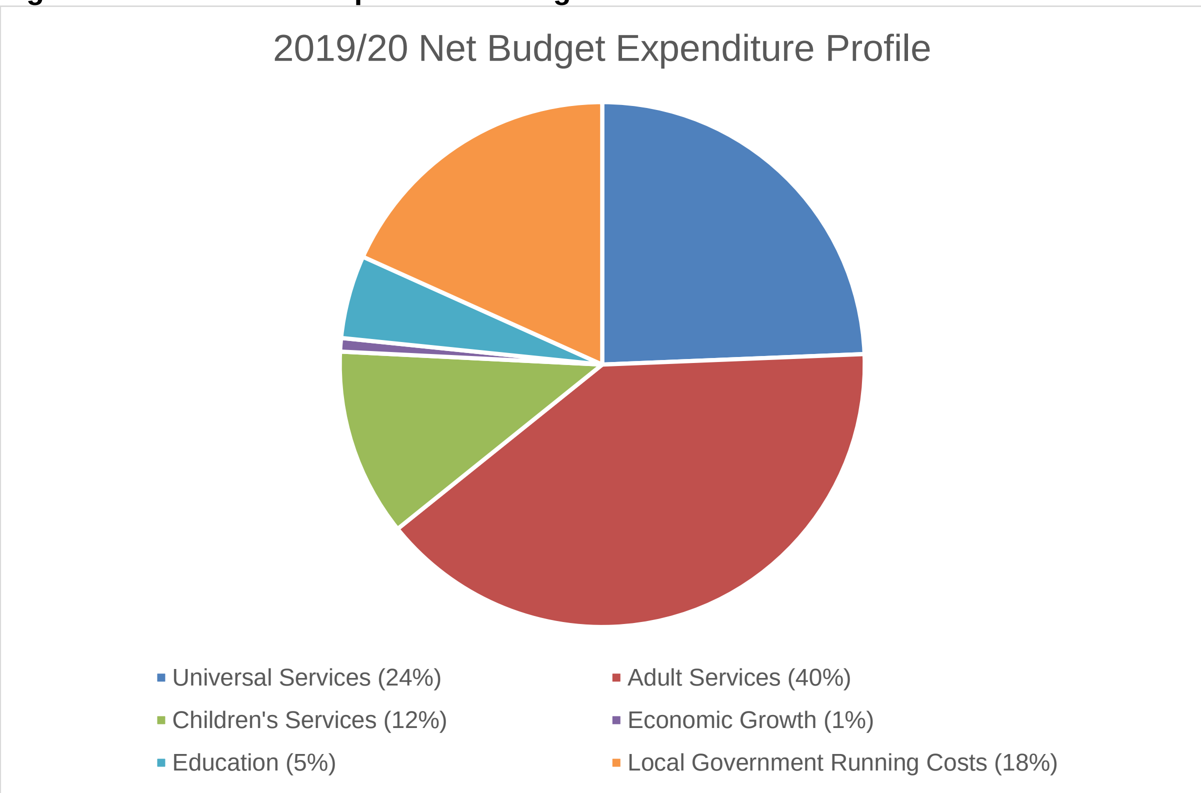
	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Council Tax	163,933,777	173,287,521	183,173,997	193,625,808	204,674,538
Business Rates:					
Business Rates Collected	40,728,547	41,361,163	42,003,606	42,656,027	43,318,581
Business Rates - Energy Renewable Schemes	960,474	900,000	900,000	900,000	900,000
Top Up Grant	10,031,260	10,031,260	10,031,260	10,031,260	10,031,260
RSG	6,218,750	4,179,066	2,139,383	0	0
Collection Fund:					
Council Tax	2,757,526	500,000	500,000	500,000	
Business Rates	891,237	-500,000	-500,000	-500,000	
NET BUDGET	**225,521,571**	**229,759,011**	**238,248,246**	**247,213,094**	**258,924,379**
Grants included in Core Funding:					
Improved Better Care Fund	9,547,340	0	0	0	0
New Homes Bonus	8,366,700	4,592,570	2,227,140	0	0
Rural Services Delivery Grant	6,614,130	0	0	0	0
Social Care Grant	7,882,890	0	0	0	0
CORE FUNDING	**257,932,631**	**234,351,581**	**240,475,386**	**247,213,094**	**258,924,379**
Local Income					
Fees and charges (including income savings deliverable from prior years)	84,103,880	86,384,981	88,703,677	91,202,251	93,944,845
Other Grants and contributions	27,000,030	27,000,030	27,000,030	27,000,030	27,000,030
Specific Grants (excluding Core Funding Grants above)	220,112,040	203,562,140	203,507,690	203,460,570	203,420,262
Internal Recharges	5,963,040	5,963,040	5,963,040	5,963,040	5,963,040
TOTAL FUNDING	**595,111,621**	**557,261,772**	**565,649,823**	**574,838,985**	**589,252,556**

4.1 Profile of Council's Expenditure

The Council's net revenue budget in 2019/20 is £213.839m.

As the number of older people in Shropshire increases, and the complexity of care needs increase, the proportion of the Council's budget that is spent on adult social care grows. In 2019/20, 40% of the Council's net budget will be spent on Adult Services.

Figure 14: 2019/20 Net Expenditure Budget



As outlined earlier in the strategy, the proportion of spend on social care is increasing year on year, within Children's Social Care costs increasing alongside the well documented increase in Adults Social Care.

Of the 24% Universal Services detailed in the graph above, almost half of this related to Waste Collection and Disposal and a third relates to expenditure on maintaining highways.

A receipt showing the cost of services represented within an average Band D council tax payment for the 2019/20 is shown in Figure 15 below.

Figure 15: Council Tax Receipt

Shropshire Council

2019/20 Council Tax Receipt
Charges for a Band D Property

- -

	£
**** UNIVERSAL SERVICES ****	
* Buses and Community Transport	36.58
* Highways	106.51
* Leisure and Outdoor Spaces	11.98
* Libraries	14.17
* Registrars, Coroners and Bereavement Services	2.07
* Theatre, Arts, Museums and Archives	0.83
* Trading Standards, Licensing, Regulatory Services and Community Safety	21.26
* Waste and Recycling Collections	188.01
**** ADULT SERVICES ****	
* Adult Social Care	605.05
* Housing	15.78
* Public Health - Substance misuse, sexual health services, health checks, smoking cessation	3.31
**** CHILDREN'S SERVICES ****	
* Children and Families Early Help Services and Youth Services	8.02
* Children's Social Care	159.96
* Children with Disabilities	13.00
**** ECONOMIC GROWTH ****	
* Broadband - Rural rollout	0.89
* Economic Growth	5.84
* Planning	6.24
**** EDUCATION ****	
* Education and Schools	9.62
* Home to School Transport	70.53
**** LOCAL GOVERNMENT RUNNING COSTS ****	
* Customer Services	13.65
* Directors and Senior Staff	32.08
* Elections and Democratic Services	13.09
* Financing Costs - Debt repayment and interest payments	57.97
* Insurance and Property Costs	61.67
* Organisational Administration	6.53
* Pension Compensation Payments	9.54
* Support Services - Finance, legal, audit, HR, procurement, commissioning and ICT services	91.36
	1,565.56

****

** VOUCHER **

**** INCOME TO SUPPLEMENT COUNCIL TAX ****	
* Car Parking Income	-35.33
* Non Ring-Fenced Grants	-142.00

****

TOTAL TO PAY	**1,388.23**

****

09:00 01/04/19 123456789

****

4.2 Demographic Pressures

The main budgetary pressure that the Council experiences is due to demographic increases. The two most significant areas of growth are within Adult Social Care and Children's Social Care.

In 2019/20 the committed expenditure for Adult Social Care Purchasing budget has exceeded the growth allocation for the year. Based on the projections of service user numbers and the complexity of care requirements, an additional £3.3m is anticipated for the remainder of the year. This growth alongside the revised growth model for future years outlines that care costs will increase by £15.2m in 2020/21. This is partially offset by increased care contributions however this still leaves a net demographic pressure of £13m to be funded.

The numbers of looked after children and particularly the complexity of need is also providing a demographic pressure in 2020/21 with £3.9m of additional costs projected in 2020/21. Also with the increasing numbers of children in social care, this leads to other additional costs including additional social workers required to support the looked after children and increasing legal and court costs relating to legal cases of looked after children.

Total demographic pressures for 2020/21 are £21.6m.

Projections of growth are anticipated over the next five years of the financial strategy, with Adult Social Care and Children's Social Care being the two main areas of growth anticipated.

4.3 Inflation

The Council is subject to inflationary pressure like any other organisation or individual and therefore needs to build in inflationary cost increases to expenditure each year within the budget.

The Council employs approximately 4,900 full time equivalent members of staff and so inflationary increases in pay is one of the key elements of inflation to be included. The majority of staff pay is linked to the National Joint Council rates, or if not this body then other recognised pay bodies, and so the inflationary pay award is negotiated nationally, which the Council then implements. The Council has assumed a 2% increase for 2020/21 (£2.7m) and maintained this increase at 2% for the next four financial years.

The Council pays out approximately £165m in contract payments to various organisations, for example to Adult Social Care Providers, the Council's Waste Collection and Disposal Contractor or the Highways Maintenance contractor. These contracts will generally have inflation built in to them. In addition the council will also be subject to price increases in energy or petrol prices. The total of both of these elements is £2.7m.

The other element of inflation relates to the Council's contribution towards the pension scheme for employees. The pension scheme is subject to a three year actuarial valuation which calculates the level of funding within the pension scheme and establishes the recommended contribution rate that should be paid by the Council. The last actuarial valuation has been undertaken in 2019, and this has established a different contribution rate to be paid from 2020/21 for the next 3 years. Due to a good valuation result in that the level of funding within the scheme has increased from an 84% level to a 93% level, the pension contribution for the Council has reduced for the next 3 years. This has delivered a budgetary saving of £0.9m.

4.4 Service Specific and Local Generated Pressures

In addition to demographic growth, during the budget setting process a number of other growth items will be identified as necessary expenditure either due to budgetary pressures identified in the 2019/20 financial year, that are anticipated to be ongoing, or to provide for investment budgets that will help transform services to deliver budgetary savings in the future.

A total of £1.972m has been added into the budget for service specific pressures. A split of the main items included within this total is provided in table 3 below:

Table 3: Service Specific Pressures 2020/21

Loss of Income	£1.244m	The largest element included within this is the loss of DSG income following the ESFA Baselining exercise and services no longer being eligible for DSG funding.
Additional Staffing Resources	£0.314m	There are 3 main service areas that have requested additional staffing resources: • Building control due to an increase in scrutiny following Grenfell Tower • ICT in order to support new technology introduced to deliver efficiencies in the budget • Looked After Children Apprentices to help "grow our own" future social workers and to reduce reliance on agency staff.
Investment in IT Services	£0.414m	Additional IT infrastructure costs need to built into the budget in order to deliver the Council's digital strategy and agile way of working.
	£1.972m	

There are a number of changes that have been included within the Local Generated Pressures section of the budget build up and in the main these reflect changes to expenditure as a result of changes made to the Council's funding position for the year. For example, where non-core government grants have been received, these are considered ringfenced to service areas, and so as these grants increase, the expenditure will increase accordingly and vice versa for a grant decrease.

Also there a number of service areas that operate as trading units, and therefore if it is proposed that income levels will change in the year, this will be offset by compensatory changes to expenditure where savings proposals have not been included.

The Council is also ambitious to become a more commercial council and invest in capital schemes that will either deliver income streams to the Council in the future or will help to reduce service related costs. It is therefore prudent for the Council to budget for the related cost of investment based on the anticipated borrowing costs of schemes that the Council is currently progressing. This includes capital investment in IT infrastructure and commercial investments.

EXPENDITURE PRESSURES

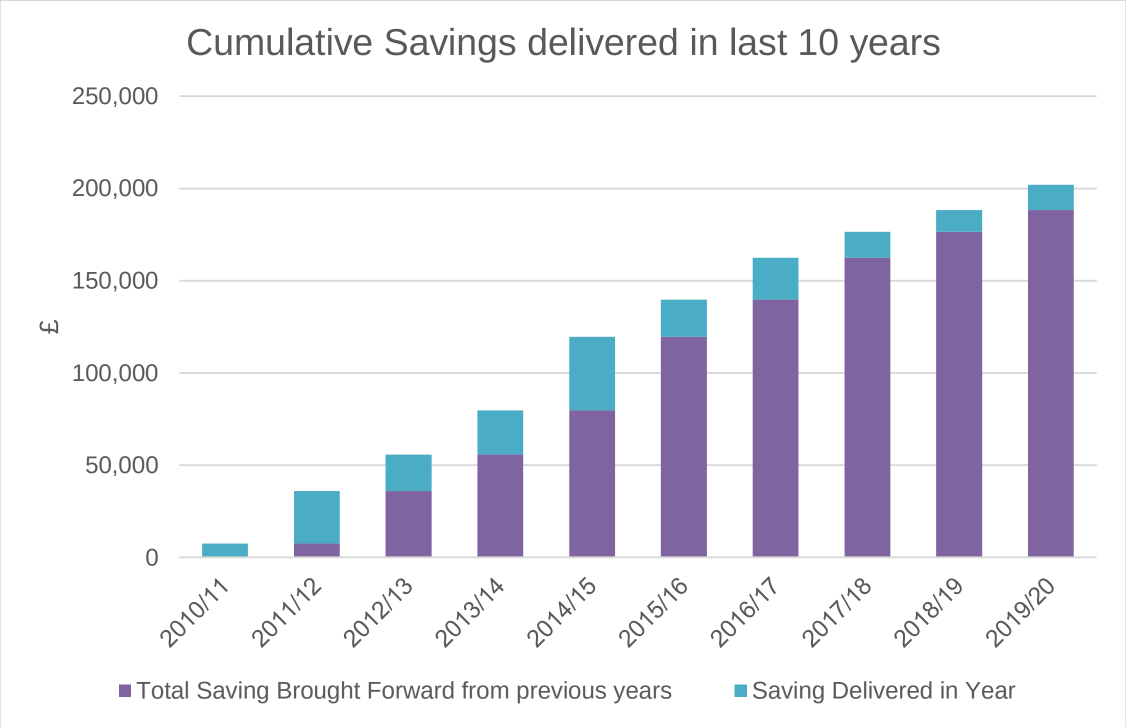
Two new budgets have been included for 2020/21 in order to give the Council capacity to deliver ongoing budgetary savings in the future and move towards delivering a more sustainable budget:

1. The most significant of these budgets is the inclusion of a one off £5.250m invest to save fund in order to provide for one off upfront investment to deliver future savings. For example, within Children's Services new savings proposals, there is the intention to reduce the numbers of children in long term residential care by £2m. To achieve this £2m saving, investment of approximately £1.3m would be required in staffing and commissioned support services for a transitional period while resources are shifted to preventative work in terms of supporting children not becoming looked-after or cared for by foster families rather than residential.
2. A budget of £0.960m has been included to invest in energy renewable schemes within the Council. The Council has made a commitment to become carbon neutral in the next 30 years and so has allocated the business rate income that it collects from energy renewable schemes in Shropshire towards this objective. This will be an ongoing expenditure budget each year, although the exact amount available will change depending on the level of business rates received. Within the financial strategy a budget of £0.900m has been included for future years based on average levels of energy renewable scheme business rates received in previous years.

4.5 Savings Plans

The Council has been required to deliver significant savings year after year during the period of austerity. Prior to austerity the budget generally used to be subject to finding efficiency savings each year to balance the budget, however austerity introduced a new level of savings to be found by all local authorities. As a result it has not been possible to continue to "salami slice" budgets, instead the Council has had to look at transformational ways of delivering its services, scaling back non-statutory services and delivering new income in order to deliver the savings necessary to balance the books. In addition to government funding cutbacks, the Council has also been faced within increasing costs as outlined within Demography Pressures, and this has forced the Council in to delivering further savings over and above those dictated from the funding changes.

Figure 16: Cumulative Savings Delivered



When the 2018/19 financial strategy was compiled, savings plans over the next five years were compiled. For 2020/21, savings plans of £0.013m were identified however this included the reversal of £5.5m of savings that had been taken in 2018/19 and 2019/20 relating to reducing preventative spend in Adult Social Care and Highways Maintenance. Due to the budget pressures identified in 2020/21, it is now considered that these savings do need to be delivered on a permanent basis and so these have been reinstated as savings for 2020/21.

A proportion of savings planned for 2019/20 had been temporarily removed from the budget strategy due to concerns over the ability to deliver this within the required timeframe. These have now been reinstated for 2020/21 given that services have now had sufficient time to progress delivery plans for these savings.

During the course of 2019/20, the Council monitors delivery of budget savings as part of the budget monitoring process. It has become apparent that some of the 2019/20 savings are not going to be delivered, £1.3m of these are due to Cabinet taking decisions subsequently to remove these savings proposals, but a further £3.5m including £2m of commercial income delivery and almost £0.9m of public health savings.

Given the increase in expenditure projected for 2020/21, and the non-delivery of a proportion of previous year's savings targets, it has been identified that a further £14m of new savings are required for 2020/21. Each directorate within the Council has been provided with a savings target and encouraged to find transformational ways of delivering this savings, hence identifying new ways of delivering a service rather than cutting a service that will deliver cost savings.

The total savings to be delivered for 2020/21 is £18.725m after excluding undelivered savings and the split by Directorate is shown in the table 4 below:

Table 4: Savings Schedule by Directorate

		2020/21 Savings Previously Agreed £	Undelivered Savings in 2019/20 added back in £	New Savings £	TOTAL £
Adult Services					
	Transformational	985,900	0	1,570,000	2,555,900
	Review of Contracts	1,067,810	0	640,000	1,707,810
	Joint Working	215,000	535,000	0	750,000
	Income Generation	600,000	150,000	376,000	1,126,000
	Use of Grant/Reserves	0	0	814,000	814,000
		2,868,710	**685,000**	**3,400,000**	**6,953,710**
Children's Services					
	Transformational	-200,000		2,600,000	2,400,000
		-200,000	**0**	**2,600,000**	**2,400,000**
Place					
	Transformational	147,760		1,400,000	1,547,760
	Review of Contracts	307,730		0	307,730
	Income Generation	820,000	96,000	60,000	976,000
	Use of Grant/Reserves			2,440,000	2,440,000
		1,275,490	**96,000**	**3,900,000**	**5,271,490**
Finance, Governance & Assurance					
	Transformational			519,820	519,820
	Review of Contracts			163,000	163,000
	Income Generation			320,000	320,000
	Use of Grant/Reserves			97,180	97,180
		0	**0**	**1,100,000**	**1,100,000**
Legal & Democratic Services					
	Transformational			167,890	167,890
	Review of Contracts			224,110	224,110
	Income Generation			8,000	8,000
		0	**0**	**400,000**	**400,000**
Workforce & Transformation					
	Transformational			1,884,000	1,884,000
	Review of Contracts			716,000	716,000
		0	**0**	**2,600,000**	**2,600,000**
Total		**3,944,200**	**781,000**	**14,000,000**	**18,725,200**

The specific savings schedules for each directorate are detailed below:

Table 5: Detailed Savings by Directorates

Adult Services

Ref	Directorate	Portfolio Holder		Description	2020/21 Saving
2020/21 Savings Previously Agreed					
A05	Adult Services	Dean Carroll	Transformational	Use of HOLD (capital) funding to reduce the cost of high cost placements	50,000
A09	Adult Services	Dean Carroll	Review of Contracts	Increase in supported living accommodation	117,670
A14	Adult Services	Dean Carroll	Review of Contracts	Review of supporting people contracts	206,000
A15	Adult Services	Dean Carroll	Transformational	Invest in digital health technologies	200,000
A17	Adult Services	Dean Carroll	Joint working	Explore joint housing and social care opportunities with partners	200,000
A18	Adult Services	Dean Carroll	Review of Contracts	Provider market stewardship and micro-commissioning	300,000
A19	Adult Services	Dean Carroll	Transformational	Increased use of social prescribing	50,000
A22	Adult Services	Dean Carroll	Transformational	Single Handed Care - Reduce the cost of care packages by investing in technology	40,000
A23	Adult Services	Dean Carroll	Review of Contracts	Increased number of Shared Lives placements and Positive Steps contract review	52,140
A25	Adult Services	Dean Carroll	Income Generation	Innovate to generate new income	50,000
A26	Adult Services	Dean Carroll	Transformational	Remodel day services offer	96,700
2A33R	Adult Services	Dean Carroll	Income Generation	Increased Joint Training Income	20,000
2A34R	Adult Services	Dean Carroll	Transformational	Community catalysts	100,000
2A35R	Adult Services	Dean Carroll	Transformational	Transport review	100,000
2A36R	Adult Services	Dean Carroll	Review of Contracts	Review block bed provision	250,000
2A37R	Adult Services	Robert Macey	Income Generation	Increased Housing Income	100,000
2A38R	Adult Services	Robert Macey	Transformational	Utilisation of HRA monies to fund temp accommodation properties	172,200
2A39R	Adult Services	Dean Carroll	Joint working	Joint commissioning of adults social care placements with Shropshire CCG (increase on saving A28)	15,000
2A40R	Adult Services	Dean Carroll	Transformational	Reduction in use of external reablement	100,000
2A41R	Adult Services	Dean Carroll	Review of Contracts	CM2000 reduction in contract	50,000
2A42R	Adult Services	Dean Carroll	Review of Contracts	TUPE savings on Crowmoor contract	32,000
2A43R	Adult Services	Dean Carroll	Review of Contracts	Review commissioning to review contract tender arrangements	10,000
2A44R	Adult Services	Dean Carroll	Transformational	Increase the use of positive steps as alternative delivery model	27,000
2A45R	Adult Services	Dean Carroll	Review of Contracts	Review of spot purchasing	50,000
2A46R	Adult Services	Gwilym Butler	Income Generation	Regulatory Services, Trading Standards and Licensing, bereavement services review leading to redesign of delivery model and an increased	400,000
H12	Public Health	Rob Gittins	Income Generation	Help2Change Service Charges	30,000
H13	Public Health	Rob Gittins	Transformational	Innovation within Help2Change	50,000
					2,868,710
Undelivered Savings in 2019/20 added back in					
A28	Adult Services	Dean Carroll	Joint working	Joint commissioning of adult social care placements with Shropshire CCG	535,000
H16	Public Health	Gwilym Butler	Income Generation	Increase parking enforcement functions in line with the parking strategy	100,000
H24	Public Health	Rob Gittins	Income Generation	Reclaim of funds from out of area for sexual health services (Wales)	50,000
					685,000
New Savings					
2A03	Adult Services	Dean Carroll	Income Generation	External income generation	100,000
2A11	Adult Services	Dean Carroll	Review of Contracts	Review of Existing Community Based packages	400,000
2A12	Adult Services	Dean Carroll			
2A13	Adult Services	Dean Carroll	Review of Contracts	CM2000 reduction in contract	20,000
2A14	Adult Services	Dean Carroll	Review of Contracts	Review block ASC contracts	20,000
2A15	Adult Services	Dean Carroll	Transformational	DP clawback provision	150,000
2A16	Adult Services	Robert Macey	Income Generation	Increased Housing Income on Handyperson	50,000
2A17	Adult Services	Robert Macey	Income Generation	DFG Fees interest	100,000
2A18	Adult Services	Robert Macey	Transformational	Reclaim of HRA monies	80,000
2A19	Adult Services	Rob Gittins	Transformational	Regulatory Services Growth	26,000
2A20	Adult Services	Rob Gittins	Transformational	Redesign of integrated sexual health services	100,000
2A21	Adult Services	Rob Gittins	Transformational	Inpatient Detox	50,000
2A22	Adult Services	Rob Gittins	Transformational	Out of Hours Cover	25,000
2A23	Adult Services	Rob Gittins	Income Generation	Bereavement Services Income	36,000
2A26O	Adult Services	Rob Gittins	Transformational	Regulatory Services Capital reversal	100,000
2A27	Adult Services	Rob Gittins	Income Generation	Registrars and Coroners income and reserve	30,000
2A28	Adult Services	Rob Gittins	Income Generation	Public Health services training income	10,000

EXPENDITURE PRESSURES

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
New Savings				
2A29	Adult Services	Rob Gittins	Review of NHS Healthchecks, Preventive Health and Health TV.	30,000
2A30	Adult Services	Gwilym Butler	Increase parking enforcement functions in line with the parking strategy	50,000
2A31	Adult Services	Dean Carroll	Reduction in purchasing growth	759,000
2A15	Adults Services/Corporate Services	Dean Carroll	PFI Contract Savings	200,000
2P02	Adults Services/Place	Robert Macey	New model for temporary housing	250,000
2A32O	Adult Services	Dean Carroll	One-Off Grant monies usage	814,000
				3,400,000
Total Adult Services Savings				**6,953,710**

Children's Services

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
2020/21 Savings Previously Agreed				
C14	Children's Services	Ed Potter	Expand the use of Troubled Families grant income for two years.	**-200,000**
New Savings				
2C03	Childrens Services	Ed Potter	North Yorks - No children in residential care model	2,000,000
2C08	Childrens Services	Ed Potter	Highest cost external residential placements	250,000
2C09	Childrens Services	Ed Potter	New Residential Homes	100,000
2C10	Childrens Services	Ed Potter	Reduction in use of agency workers	150,000
2C06	Childrens Services	Nick Bardsley	Reduction to Council Central Schools Block of Dedicated Schools Grant	100,000
				2,600,000
Total Children's Services Savings				**2,400,000**

Place

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
2020/21 Savings Previously Agreed				
P02	Place	Lezley Picton	End agreement with Rockspring Community Centre	7,730
P11	Place	Lezley Picton	Review of library provision	73,950
P15	Place	Steve Charmley	Review of community assets	73,810
P39	Place	Steve Charmley	Raise income from investment in assets	500,000
P41	Place	Steve Davenport	Negotiate contract savings upon renewal, through better contract management	300,000
P65	Place	Steve Charmley	Income generation from investment in assets	320,000
				1,275,490
Undelivered Savings in 2019/20 added back in				
P05	Place	Steve Charmley	Review of car parking at administrative sites	96,000
				96,000
New Savings				
2P03	Place	Steve Charmley	Support package for Operation of Park and Ride	200,000
2P05	Place	Rob Macey	HRA cost recovery	100,000
2P06	Place	Steve Charmley	Assets and Estates rationalisation	200,000
2P13	Place	Lezley Picton	Waste Growth Item Reversal	450,000
2P14	Place	Steve Davenport	Increased income for Streetworks Team	60,000
2P02	Place	Rob Macey	New model for temporary housing	250,000
2P15O	Place	Steve Davenport	One-off Draw down Kier underspend reserve	1,000,000
2P16O	Place	Steve Davenport	One-off Draw down Severe Weather reserve	350,000
2P17O	Place	Steve Charmley	One-off Draw down Schools Building Maintenance Insurance Reserve	400,000
2P18O	Place	Steve Davenport	One-off streetworks income	190,000
2P19O	Place	Steve Charmley	One-off Draw down Workshops Provision	200,000
2P20O	Place	Steve Davenport	One-off Draw down Transport Reserve	300,000
2P21O	Place	Steve Davenport	LED Street Lighting	200,000
				3,900,000
Total Place Savings				**5,271,490**

EXPENDITURE PRESSURES

Finance Governance & Assurance

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
New Savings				
2F01	Finance	David Minnery	Insurance premiums and recharges	163,000
2F02	Finance	David Minnery	Investment returns and smoothing fund	149,820
2F03	Finance	David Minnery	Development Fund base budget reduction	300,000
2F05	Finance	David Minnery	External commercial services	320,000
2F06	Finance	David Minnery	Staffing	70,000
2F07O	Finance	David Minnery	Contribution from insurance reserves	97,180
Total Finance, Governance & Assurance Savings				**1,100,000**

Legal & Democratic

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
New Savings				
2LD01	Legal & Democratic Services	David Minnery	Member Training	10,000
2LD02	Legal & Democratic Services	David Minnery	Civic Dinner	4,000
2LD03	Legal & Democratic Services	David Minnery	Member PR Budget	3,000
2LD04	Legal & Democratic Services	David Minnery	New Children's Lawyer	50,000
2LD07	Legal & Democratic Services	David Minnery	JLB Bid Funding	76,690
2LD09	Legal & Democratic Services	David Minnery	Committee Services - Vacant posts	14,200
2LD10	Legal & Democratic Services	David Minnery	Member costs reduction	5,000
2LD11	Legal & Democratic Services	David Minnery	Increased income generation	8,000
2LD12	Legal & Democratic Services	David Minnery	Postage cost reduction - committee services	5,000
2LD13	Legal & Democratic Services	David Minnery	Corporate and Democratic Core service review	224,110
Total Legal & Democratic Savings				**400,000**

Workforce & Transformation

Ref	Directorate	Portfolio Holder	Description	2020/21 Saving
New Savings				
2WT04	Workforce & Transformation	David Minnery	Underspend removal	10,000
2WT06	Workforce & Transformation	Lee Chapman	PCI, SIP trunking and Telephony	200,000
2WT07	Workforce & Transformation	David Minnery	Postage cost reduction	60,000
2WT08	Workforce & Transformation	David Minnery	Printing cost reduction	50,000
2WT09	Workforce & Transformation	David Minnery	Rationalisation/Integration of Legacy Systems	75,000
2WT10	Workforce & Transformation	David Minnery	Room booking system - Lower cost of external room bookings	20,000
2WT11	Workforce & Transformation	David Minnery	Training – Move to e-learning	60,000
2WT12	Workforce & Transformation	David Minnery	Review of First Line HR Contacts	25,000
2WT13	Workforce & Transformation	David Minnery	Mobile Phone Contract Reduction	40,000
2WT14	Workforce & Transformation	David Minnery	Re-working ICT approvals process	30,000
2WT15	Workforce & Transformation	David Minnery	Energy Savings	14,000
2WT16	Workforce & Transformation	David Minnery	Changes to Disaster Recovery Arrangements	50,000
2WT17	Workforce & Transformation	David Minnery	Migration of External Payrolls to BW ERP	5,000
2WT18	Workforce & Transformation	David Minnery	ERP System Saving	67,000
2WT19O	Workforce & Transformation	David Minnery	Contract reductions from IT infrastructure replacement – one off saving	290,000
2WT20	Workforce & Transformation	David Minnery	Contract reductions from IT infrastructure replacement	283,000
2WT21	Workforce & Transformation	David Minnery	WAN contract reductions	103,000
2WT22	Workforce & Transformation	David Minnery	Review of Web Services	37,000
2WT23	Workforce & Transformation	Lee Chapman	Lean review of Shropshire Council structures and processes linked to transformation,	1,181,000
Total Workforce & Transformation Saving				**2,600,000**
			Total	**18,725,200**

4.6 Total Expenditure

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Original Gross Budget Requirement	**593,079,737**	**625,176,077**	**594,308,188**	**607,230,744**	**624,861,214**
Inflationary Growth :					
Pay	2,671,050	2,743,338	2,819,197	2,897,208	2,977,435
Prices	2,729,730	1,901,746	1,988,548	2,080,762	2,115,831
Pensions	-933,890	0	0	0	0
Demography & Demand	21,563,167	11,966,550	13,846,297	14,829,238	16,152,790
Service Specific Pressures	1,971,738	144,179	95,225	97,522	102,254
Local Generated Pressures:					
Elections		700,000	-700,000		
Specific Grants Changes between years	7,346,100	-39,327,572	-2,417,780	-2,274,260	-42,408
One off investment in IT infrastructure	1,101,130	-1,101,130			
Estimated Cost of Investment - *Approved*	1,485,000	1,265,000	1,760,000		
Invest to Save Fund for delivery of future savings	5,250,000	-5,250,000			
Energy Renewable Schemes	960,000	-60,000			
Adjustment to Gross budget offset by Income changes	4,082,965				
Savings					
Savings from prior years- 2018/19 - Approved	*-4,144,200*	*-3,850,000*	*-4,468,930*		
Remove 2019/20 Red Savings Unachievable	*4,794,550*				
2019/20 Red savings Achievable in 2020/21	*-2,781,000*				
New Savings	*-14,000,000*				
TOTAL EXPENDITURE	**625,176,077**	**594,308,188**	**607,230,744**	**624,861,214**	**646,167,116**

5.1 Funding Gap and Temporary Solutions

The proposed expenditure plans for 2020/21 of £625.18m exceeds the total funding anticipated of £595.11m, leaving a funding gap to be resolved. It is also anticipated that the funding gap will increase each year over the five year period to 2024/25 unless additional funding or ongoing savings can be identified.

Table 6: Funding Gap

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Resources	595,111,621	557,261,772	565,649,823	574,838,985	589,252,556
Expenditure	625,176,077	594,308,188	607,230,744	624,861,214	646,167,116
Gap in year	**30,064,456**	**37,046,416**	**41,580,922**	**50,022,229**	**56,914,559**

The Council is required by law to set a balanced budget each year, and therefore the Council is planning to bridge this gap by using one off grants from the government and the use of one off balances such as the cost of investment budget. This budget was set aside for the related borrowing costs to be incurred from progressing capital schemes that would then deliver revenue savings in the budget. Due to delays and refinements of which schemes will be progressed, it is not anticipated that the full budget provision will be required and therefore £2.750m can be released to bridge the funding gap in year.

The Council has also been building up a Financial Strategy Reserve (£19m) in order to build up funds to assist with any potential funding shortfall that may occur when the Fair Funding Review is implemented. For 2020/21 it is intended that this reserve will not be drawn down and instead will be used in 2021/22 which has anticipated a reduction in government grants.

Table 7: Balancing off the Funding Gap

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Resources	595,111,621	557,261,772	565,649,823	574,838,985	589,252,556
Expenditure	625,176,077	594,308,188	607,230,744	624,861,214	646,167,116
Gap in year	**30,064,456**	**37,046,416**	**41,580,922**	**50,022,229**	**56,914,559**
One Off Funding to be used:					
One off Grants:					
Rural Services Delivery grant	6,614,130	0	0		
New Homes Bonus - One Off	3,366,699	-407,434	-2,772,861	-5,000,000	-5,000,000
Improved Better Care Funding	9,547,343	0	0		
Social Care Funding - One Off	7,882,889				
Use of Reserves:					
One off use of Cost of Investment Budget	2,750,000				
Financial Strategy Reserve	-96,605	19,052,657			
TOTAL ONE OFF FUNDING	**30,064,456**	**18,645,223**	**-2,772,861**	**-5,000,000**	**-5,000,000**
Remaining Gap to be Funded	**0**	**18,401,193**	**44,353,783**	**55,022,229**	**61,914,559**

As demonstrated in the table above, the proposed temporary solutions resolve the funding gap for 2020/21, however a funding gap still remains for future years.

5.2 Plan for a Sustainable Budget

The 2021/22 to 2024/25 financial years within the Financial Strategy assume that the Government will complete the Fair Funding Review and the implications of this will be experienced during these years. It is difficult at this stage to predict with any accuracy as to what the implications will be for Shropshire Council however it is currently assumed that one off sources of funding such as the Rural Services Delivery Grant, Improved Better Care Fund and New Homes Bonus will be removed in future years. With growth in services such as social care anticipated to continue to grow as per current demography, this results in a Funding gap of £37.0m in 2021/22 growing to £56.9m in 2024/25.

The Council has been building up a Financial Strategy Reserve over the last four years in order to provide the Council with some resilience to the impact that Fair Funding may have on the Council's budget and it is anticipated that this will be fully released in 2021/22. In the meantime the Council will continue to make representations to Government that the funding for Social Care has not been sufficient for a number of years and this needs to be addressed in the Funding Review. The outcome of the Fair Funding Review will give the Council a more accurate picture of the funding gap that needs to be addressed, but in the meantime the Council is taking a number of steps to deliver a sustainable budget for the Council.

The longer term plans for the Council also involve becoming more commercial with the aim of looking for more commercial opportunities for the Council in which we can increase the income that the Council receives in order to reduce the impact of funding reductions.

The Council is also looking to grow the economy of the county as outlined in the Council's Shropshire Economic Growth Strategy 2017 – 2021. The three key objectives are to support and grow new and existing businesses, attract inward investment in key sectors, and develop and retain talent and skills. This economic growth is anticipated to deliver additional business rate income for the authority and additional council tax through the growth in the housing supply associated with the anticipated economic growth.

In 2018 the Council purchased the Shrewsbury shopping centres for £52m to support the economic growth and regeneration of the town centre. This has generated total income of approximately £4.0m in 2017/18 to 2019/20, which will help support the Council in the long term delivery of services within a challenging financial environment. The Council is now planning to move forward with the second phase of the shopping centre project by re-purposing the Pride Hill Shopping Centre for leisure led uses in order to address the structural changes in the retail market which is being experienced across the country. It is intended that this investment will safeguard ongoing returns into the Council.

In 2019, the Council has also established a wholly owned housing development company called Cornovii Developments Limited. The purpose of this company is to address the unmet housing need across the county by building more affordable homes and those adapted for older and vulnerable people. The growth in housing that this company will develop should further increase council tax income into the Council but also it is anticipated that the Council will be able to generate a financial return from the company.

The Council intends to continue to invest in housing, health and care hubs in local communities such as the Paul's Moss scheme in Whitchurch to improve outcomes for local people, reduce demand and pressure on health and care services, reduce costs and generate income. This work is driven by a successful and well established one public estate approach which has been awarded up to £0.5m of revenue funding to progress these schemes. We have plans to build two new medical practices with services designed and integrated into hubs which will deliver £0.55m of revenue. We have plans to extend this approach and investment into other market towns by working in collaboration with our health partners.

In 2019/20 the Council is developing and adapting two homes for looked after children to reduce costs associated with contracts with external providers and also improving assisted living accommodation for adults requiring social and residential care. These should help to contain growth in social care costs.

The Council has developed two sites for student accommodation for the University Centre of Shrewsbury (UCS) in Shrewsbury which provides 140 beds for rent paying students. This includes international students and apprentices working in the public and private sector.

The Council continues to grow the turnover and income generated from council teams who provide services for schools, other public authorities, housing providers and private businesses. Our Shire Services team has a turnover of £14m with over 50% of business now provided outside of the county.

The Council will continue to develop and use consumer technology to equip people to live independently for longer in their local communities. This can be implemented at low cost and supplied to other local authorities as a source of income. We shall use data analytics to help reduce demand associated with people who are deemed to be vulnerable and likely to require a lot of public sector intervention. The innovative design and use of data and technology will also provide a valuable source of income when marketing and selling our approach and services to others.

In 2019, the Council rolled out the implementation of new corporate software solutions for Finance, HR, Payroll, Adults and Children’s Social Care, Customer Experience and IT infrastructure changes. This formed part of the Council’s Digital Transformation Project and the Council is now adapting to more efficient ways of working which will deliver efficiency savings as well as deliver savings in IT software costs. Further improvements are planned as part of the Digital Transformation Project and it is the Council’s intention to be able to sell services to external customers on the back of these developments to bring in further income.

The next phase of this work will see changes to public facing service delivery to channel shift customers, where appropriate, to lower cost delivery models such as online and self service delivery. The Council is looking to deliver a Cashless, Paperless and Online agenda over the near future in order to reduce unnecessary costs.

6.1 General Fund Balance

The Council holds a number of reserves in order to provide funds either for a specific planned purpose, or to provide a contingency fund in case of any financial issues arising in year.

The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any unplanned liabilities arising in the year.

On an annual basis the Council considers the level of reserves held, including the General Fund Balance, to assess whether they are adequate. There are two main approaches for deciding the optimum level of the general balances. One method is to set an arbitrary percentage of expenditure, however this generally has little reflection of the potential contingencies that the Council may need to draw on. An alternative, preferable, method is an approach based on a risk assessment of the budget.

The Council uses the risk assessment approach in calculating the proposed level of General Fund Balance to hold. This approach considers strategic, operational and financial risks that the authority is facing. This includes, for example, changes in external funding or the council's ability to deliver savings; the effectiveness of budget monitoring to identify variances from spending plans and trigger timely remedial action; the availability of other funds to cover costs – for example, from an insurance policy, or from the government under the Bellwin Scheme for emergency financial assistance; and the extent to which contingency is built into individual departmental budgets and the council's overall budget.

A framework has been developed to identify areas of risk with an appropriate budget amount, an assessed level of risk (high, medium and low) and a percentage factor which will vary according to the level of risk. This process produces a value from which a risk assessed optimum level of general balance can be created.

There are six main areas that the General Fund Balance is required to cover and the individual risks within these areas have been considered.

- Treatment of inflation and interest rates
- Level and timing of capital receipts
- Treatment of demand led pressures
- Treatment of efficiency savings/productivity gains
- Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions
- General Financial Climate

The risk calculation used to estimate the required General Fund Balance was expanded in 2019/20 to take account of risks associated with Brexit. Brexit is now scheduled for the end of January 2020 although the impact is unknown at the present time, and there is the potential to see an economic slowdown, impacting on capital receipts generation, construction and a reduction in business rates; increased unemployment and homelessness could reduce discretionary income generation, Council Tax collection and impact on Council Tax Support; across the wider economy general inflation could be impacted and supply chain implications could affect contract prices. The financial impact on the Council is difficult to estimate and to untangle for impacts across the wider economy, but has been estimated where possible.

It is essential in setting a balanced budget that the Council has money available in the event of unexpected spending pressures. The “balances” need to reflect spending experience and risks to which the Council is exposed.

The revenue monitoring reports have provided members with an updated projection on the General Fund and it is intended that management action planned will deliver an overspend of £1.705m. This is considered a worst case scenario but will leave the Council with an overspend that falls within the Council’s acceptable range (Green).

Table 8: Projected General Fund Balance for 2019/20

	£'000
General Fund Balance as at 31 March 2019	15,537
This Report – Projected Outturn Under/(Over)spend	(1,705)
Projected Balance at 31 March 2020	**13,832**

The projected overspend within 2020/21 is anticipated to reduce the General Fund Balance significantly. The Council is taking management action to reduce this overspend including the implementation of a spending freeze and it is hoped that this will reduce the impact on the General Fund Balance by the end of the financial year. The risk-based calculation for the General Fund Balance is significantly higher than this value over the course of the 5 year Financial Strategy as shown below:

Table 9: Risk Based Calculation of General Fund Balance

Calculation of Risk Assessed General Fund Balance

2019/20 Budget/ Value £000	2019/20 Risk Level	2019/20 Risk Assessed General Fund £000	Budget Assumption	Area of Risk	2020/21 Budget/ Value £000	2020/21 Risk Level	2020/21 Risk Assessed General Fund £000	2021/22 Budget/ Value £000	2021/22 Risk Level	2021/22 Risk Assessed General Fund £000	2022/23 Budget/ Value £000	2022/23 Risk Level	2022/23 Risk Assessed General Fund £000	2023/24 Budget/ Value £000	2023/24 Risk Level	2023/24 Risk Assessed General Fund £000	2024/25 Budget/ Value £000	2024/25 Risk Level	2024/25 Risk Assessed General Fund £000
			Treatment of inflation and interest rates																
174,295	0.10%	174	Inflation	Salaries	168,626	0.10%	169	162,419	0.10%	162	161,319	0.10%	161	160,227	0.10%	160	159,142	0.10%	159
24,003	1.24%	298		Premises	23,222	1.24%	289	22,367	1.24%	278	22,216	1.24%	276	22,065	1.24%	274	21,916	1.24%	272
19,237	0.38%	73		Transport	18,611	0.93%	172	17,926	0.93%	166	17,804	0.93%	165	17,684	0.93%	164	17,564	0.93%	163
80,525	0.10%	81		Supplies & Services	77,906	0.10%	78	75,038	0.10%	75	74,530	0.10%	75	74,025	0.10%	74	73,524	0.10%	74
254,302	0.10%	254		Third Party Payments	246,031	0.10%	246	236,975	0.10%	237	235,370	0.10%	235	233,776	0.10%	234	232,193	0.10%	232
99,955	0.10%	100		Transfer Payments	96,704	0.10%	97	93,145	0.10%	93	92,514	0.10%	93	91,887	0.10%	92	91,265	0.10%	91
652,316	0.00%	0		Brexit effect on inflation	631,099	0.20%	1,262	607,870	0.20%	1,216	603,753	0.20%	1,208	599,664	0.20%	1,199	595,603	0.20%	1,191
85,196	0.00%	0		Pension triennial valuation unaffordable	86,900	0.00%	0	88,305	0.00%	0	91,529	0.00%	0	93,359	1.00%	934	95,227	1.00%	952
		981		**Total Inflation**			**2,312**			**2,227**			**2,212**			**3,131**			**3,135**
258,368	0.00%	0	Interest rates	Existing Borrowing	254,368	0.00%	0	242,368	0.00%	0	242,368	0.00%	0	236,868	0.00%	0	236,868	0.00%	0
0	0.00%	0		New Borrowing	0	0.00%	0	0	0.00%	0	0	0.00%	0	0	0.00%	0	0	0.00%	0
4,000	1.00%	40		PWLB	4,000	0.50%	20	12,000	0.50%	60	0	0.50%	0	5,500	0.50%	28	5,500	0.50%	28
105,830	0.50%	529		Investment	105,830	0.50%	529	105,830	0.50%	529	105,830	0.50%	529	105,830	0.50%	529	105,830	0.50%	529
		569		**Total Interest Rates**			**549**			**589**			**529**			**557**			**557**
			Level and timing of capital receipts																
-4,339	1.38%	-60	Capital Receipts	Land Sales	7,114	1.38%	98	7,114	1.38%	98	7,114	1.38%	98	0	1.38%	0	0	1.38%	0
2,915	1.38%	40		Required for new Powers to use for Revenue	2,996	1.38%	41	2,996	1.38%	41	2,996	1.38%	41	2,996	1.38%	41	2,996	1.38%	41
0	0.00%	0		Economic slowdown resulting from Brexit	7,114	1.00%	71	7,114	1.00%	71	7,114	1.00%	71	0	1.00%	0	0	1.00%	0
		-20		**Total Capital Receipts**			**211**			**211**			**211**			**41**			**41**
			Treatment of demand led pressures																
141,716	0.21%	299	Demand Led Pressures	Adult Social Care	156,924	0.21%	331	167,140	0.21%	352	178,354	0.21%	376	190,662	0.21%	402	204,173	0.21%	430
22,378	3.93%	881		Childrens Social Care	23,740	3.93%	934	24,533	3.93%	965	25,366	3.93%	998	26,241	3.93%	1,033	27,159	3.93%	1,069
		1,179		**Total Demand Led Pressures**			**1,265**			**1,318**			**1,374**			**1,435**			**1,499**

Continued …

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Calculation of Risk Assessed General Fund Balance

2019/20 Budget/ Value £000	2019/20 Risk Level	2019/20 Risk Assessed General Fund £000	Budget Assumption	Area of Risk	2020/21 Budget/ Value £000	2020/21 Risk Level	2020/21 Risk Assessed General Fund £000	2021/22 Budget/ Value £000	2021/22 Risk Level	2021/22 Risk Assessed General Fund £000	2022/23 Budget/ Value £000	2022/23 Risk Level	2022/23 Risk Assessed General Fund £000	2023/24 Budget/ Value £000	2023/24 Risk Level	2023/24 Risk Assessed General Fund £000	2024/25 Budget/ Value £000	2024/25 Risk Level	2024/25 Risk Assessed General Fund £000
			Treatment of planned efficiency savings/productivity gains																
18,490	25.93%	4,795	Efficiency Savings	19/20 non achievement of savings															
18,490	7.88%	1,457		19/20 slippage of savings															
				20/21 non achievement of savings	20,925	12.97%	2,713												
				20/21 slippage of savings	20,925	3.94%	824												
				21/22 non achievement of savings				3,850	12.97%	499									
				21/22 slippage of savings				3,850	3.94%	152									
				21/22 funding gap requiring savings				18,401	25.00%	4,600									
				22/23 non achievement of savings							4,469	12.97%	579						
				22/23 slippage of savings							4,469	3.94%	176						
				22/23 funding gap requiring savings							44,354	25.00%	11,088						
				23/24 non achievement of savings										0	12.97%	0			
				23/24 slippage of savings										0	3.94%	0			
				23/24 funding gap requiring savings										55,022	25.00%	13,756			
				24/25 slippage of savings													0	12.97%	0
				24/25 funding gap requiring savings													0	3.94%	0
				24/25 funding gap requiring savings													61,915	25.00%	15,479
		6,252		**Total Efficiency Savings**			**3,538**			**5,251**			**11,844**			**13,756**			**15,479**
			Availability of reserves, government grants and other funds to deal																
3,824	5.00%	191	Insurance and	Provision	3,824	5.00%	191	3,824	5.00%	191	3,824	5.00%	191	3,824	5.00%	191	3,824	5.00%	191
3,942	5.00%	197	Emergency	Reserve	3,942	5.00%	197	3,942	5.00%	197	3,942	5.00%	197	3,942	5.00%	197	3,942	5.00%	197
500	Quantum	500	Planning	ICT Disaster	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500
500	Quantum	500		Other Incident	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500
433	Quantum	433		Bellwin	433	Quantum	433	433	Quantum	433	433	Quantum	433	433	Quantum	433	433	Quantum	433
1,940	10.00%	194		Severe Weather	1,992	10.00%	199	2,046	10.00%	205	2,101	10.00%	210	2,158	10.00%	216	2,216	10.00%	222
		2,015		**Total Insurance and Emergency Planning**			**2,021**			**2,026**			**2,032**			**2,037**			**2,043**
26,297	0.00%	0		Other Government Settlement Changes	32,411	5.00%	1,621	4,593	5.00%	230	2,227	5.00%	111	0	25.00%	0	0	25.00%	0
61,504	1.00%	615		Housing Benefits	61,504	1.00%	615	61,504	1.00%	615	61,504	1.00%	615	61,504	1.00%	615	61,504	1.00%	615
25,768	5.00%	1,288		DSG pressures - High Needs	28,130	5.00%	1,407	28,130	5.00%	1,407	28,130	5.00%	1,407	28,130	5.00%	1,407	28,130	5.00%	1,407
3,190	5.00%	160		DSG pressures - Academisation	2,791	5.00%	140	2,791	5.00%	140	2,791	5.00%	140	2,791	5.00%	140	2,791	5.00%	140
556	25.00%	139		Academy School transfer leaving deficit budget	556	25.00%	139	556	25.00%	139	556	25.00%	139	556	25.00%	139	556	25.00%	139
		2,202		**Total Funding Changes**			**3,921**			**2,530**			**2,412**			**2,300**			**2,300**
			General Financial Climate																
12,885	5.00%	644	General Financial	Debt Collection	12,885	5.00%	644	12,885	5.00%	644	12,885	5.00%	644	12,885	5.00%	644	12,885	5.00%	644
154,427	0.50%	772	Climate	Council Tax - General risk	163,934	0.50%	820	173,288	0.50%	866	183,174	0.50%	916	193,626	0.50%	968	204,675	0.50%	1,023
154,427	0.00%	0		Council Tax - Brexit risk	154,427	1.00%	1,544	173,288	0.50%	866	183,174	0.50%	916	193,626	0.50%	968	204,675	0.50%	1,023
40,055	0.50%	200		Business Rates - General risk	41,689	0.50%	208	42,261	0.50%	211	42,904	0.50%	215	43,556	0.50%	218	44,219	0.50%	221
40,055	0.00%	0		Business Rates - Brexit risk	41,689	1.00%	417	42,261	0.50%	211	42,904	0.50%	215	43,556	0.50%	218	44,219	0.50%	221
41,245	0.50%	206		Discretionary Income	44,326	0.50%	222	44,326	2.50%	1,108	44,326	2.50%	1,108	44,326	0.50%	222	44,326	0.50%	222
41,245	0.00%	0		Discretionary Income - Brexit risk	44,326	1.00%	443	44,326	0.50%	222	44,326	0.50%	222	44,326	0.50%	222	44,326	0.50%	222
		1,823		**Total General Financial Climate**			**4,298**			**4,129**			**4,235**			**3,459**			**3,576**
213,839	0.50%	**1,069**	**Additional Budget Pressures**		225,522	0.50%	**1,128**	229,759	0.50%	**1,149**	238,248	0.50%	**1,191**	247,213	0.50%	**1,236**	258,924	0.50%	**1,295**
		16,071	**TOTAL RISK ASSESSED GENERAL FUND**				**19,242**			**19,430**			**26,039**			**27,952**			**29,925**

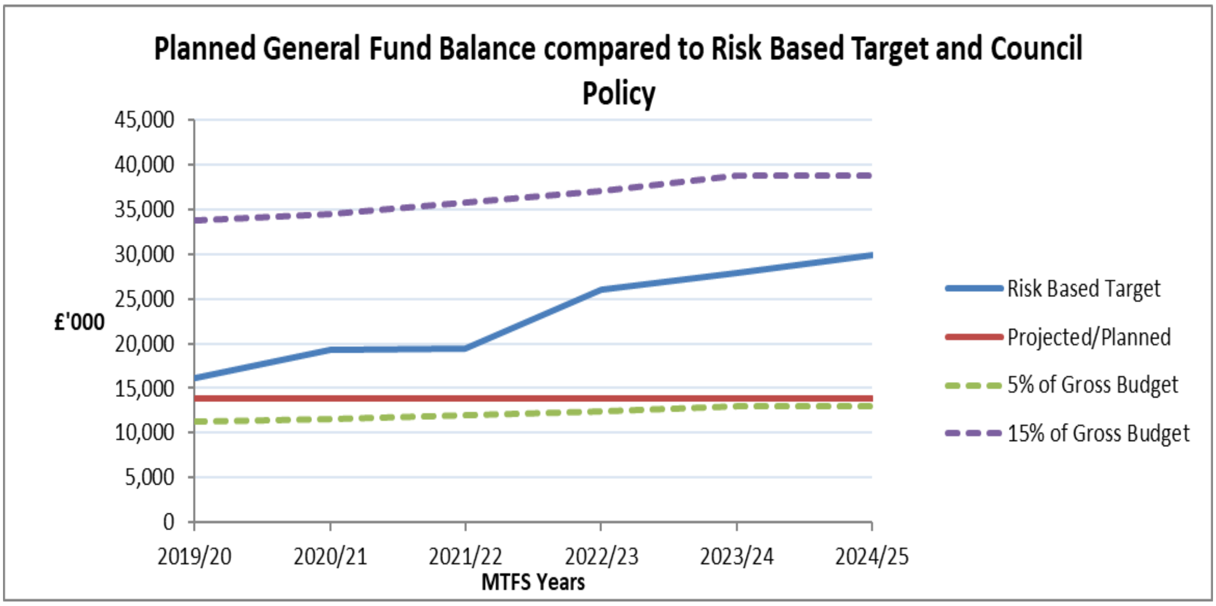
Table 10: Comparison of Risk Based Calculation to Projected General Fund

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Risk assessed level of General Fund Balance	19,242	19,430	26,039	27,952	29,925
Projected level of General Fund Balance as per Financial Strategy	13,832	13,832	13,832	13,832	13,832

The anticipated General Fund Balance for 2020/21 is below the risk assessed level for that financial year. A proportion of this shortfall, however, relates to the financial exemplification of Brexit risks given that it is still uncertain within the economy of the effects that will be experienced from exiting the EU. The risk levels have been decreased from the levels included in the last financial year given that we have now exited the EU with a deal, rather than anticipating the impact of a no deal Brexit. While this remains a risk, it is very difficult to assess whether the financial estimates identified in the calculation are accurate and realistic, and consequently it is unwise to use this element of the calculation as a robust basis for taking action that could have unnecessary and significant financial implications on the wider Council. Even if the Brexit risks are discounted from the calculation (£3.738m), the Council would still have a General Fund Balance lower than the risk assessed level. Considering the authority as a whole, given this timescale and the potential to decommit earmarked reserves in the short term under an emergency situation, it is acceptable, in this scenario, for the General Fund Balance to remain below the risk assessed level.

CIPFA have created a Financial Resilience Index which is a comparative analytical tool to understand the council's own financial position compared to other authorities. The financial resilience index based on 2018/19 data the ration of the Council's reserves to net expenditure represented a medium risk and we ranked 10th out of 16th of our nearest neighbours. The ratio of general fund balances compared to net revenue expenditure again showed that Shropshire Council was considered a medium risk and we were at the midpoint of our nearest neighbour comparator group. It should be highlighted that the risk level for this measure has increased over the last year, and if our general fund balance was to reduce in 2019/20 as anticipated, this is likely to increase our risk even further. Therefore the Council needs to do undertake management action and take necessary steps to prevent this from happening and try to increase the general fund balance in order to lower our risk level.

Figure 17: General Fund Balance compared to Risk Based Target



Research undertaken by CIPFA show that generally upper tier councils hold a general fund balance of approximately 10% of the net revenue budget. Shropshire Council is projected to hold a balance of £13.832m which represents 6% of the Net Revenue Budget. Using the CIPFA research as a basis for agreeing a benchmark to evaluate the level of General Fund Balance held, it is considered appropriate that the balance held should be somewhere between 5% and 15% of their net revenue budget. If this benchmark was implemented, it would be necessary for the General Fund Balance to be between £11.488m and £34.464m in 2020/21. This can be seen as a blunt tool for calculating an appropriate balance to hold, but does give a standard to compare to when considering if the risk calculated approach used by this Council is appropriate. As the graph above shows, in 2019/20 and 2021/22, when funding is stable and earmarked reserves have been established to address funding gaps, the risk assessed level is nearer the lower end of the spectrum with values of around 8% of the Council's net budget. However, as the funding position becomes more uncertain and earmarked reserves such as the Financial Strategy Reserve are no longer available, the risk assessed balance moves to around 11% of the Council's net budget. This would suggest that the current methodology used to calculate an appropriate general fund balance to hold is appropriate.

6.2 Earmarked Reserves

A review of the earmarked balances held by the Council has been performed to establish the purpose of the reserves and the likely timescale that these reserves will be utilised.

Earmarked reserves are created to meet known or predicted requirements in the future. There are 5 main categories of earmarked reserves that the Council holds:

- Sums set aside for major schemes, such as capital developments, or to fund major reorganisations
- Insurance Reserves
- Reserves of trading and business units
- Reserves retained for service departmental use
- School Balances

The Council held balances of £71.726m in earmarked reserves at 31 March 2019 which includes schools budget balances of £6.427m. During the course of 2019/20 it is anticipated that a net £22.683m will be drawn down from earmarked reserves to fund commitments during the year. Balances taken forwards include a reserve of £20.867m to fund the known funding gap in 2021/22 and future years as agreed in the Financial Strategy paper to Cabinet in December 2018. A full breakdown of the earmarked reserves is detailed below including the purpose of each reserve.

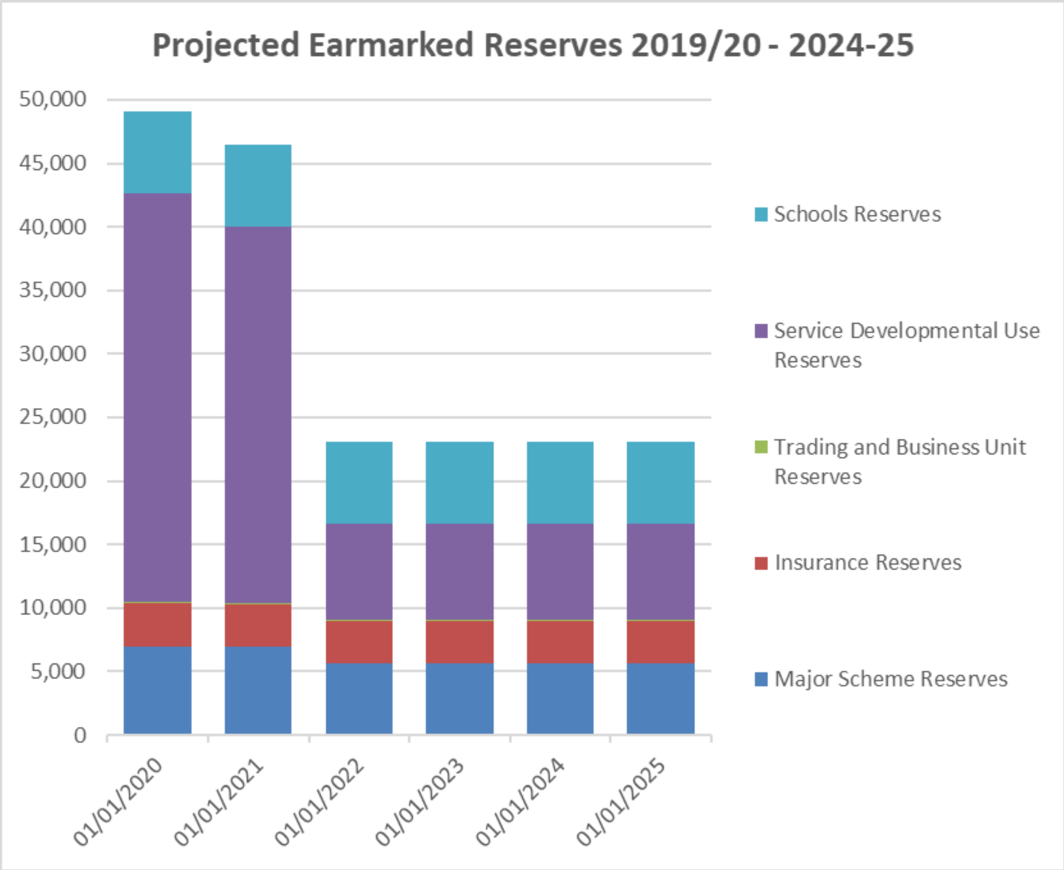
Table 11: Breakdown of Earmarked Reserves

Reserves		2019/20 Balance Brought Forward (£'000)	2019/20 Anticipated Movement (£'000)	2019/20 Balance Carried Forward (£'000)
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations				
Revenue Commitments for Future Capital Expenditure	Comprises of underspends against budgeted revenue contributions available for capital schemes. The underspends have arisen due to slippage in capital schemes or because other funding streams were utilised during the year so as to maximise time limited grants.	3,539	0	3,539
Development Reserve	Required to fund development projects or training that will deliver efficiency savings.	9,886	-8,533	1,354
Invest to save Reserve	Required to fund invest to save projects in order to deliver the service transformation programme.	3,983	-1,900	2,083
		17,408	**-10,433**	**6,975**
Insurance Reserves				
Fire Liability	Required to meet the cost of excesses on all council properties.	2,832	-500	2,332
Motor Insurance	An internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.	1,111	0	1,111
		3,942	**-500**	**3,442**
Reserves of trading and business units				
Shire Catering and Cleaning Efficiency	Built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits.	478	-400	78
		478	**-400**	**78**

Reserves		2019/20 Balance Brought Forward (£'000)	2019/20 Anticipated Movement (£'000)	2019/20 Balance Carried Forward (£'000)
Reserves retained for service departmental use				
Building Control	Required to manage the position regarding building control charges.	299	0	299
Care Act & IBCF Reserve	Required to fund the costs of implementing the Care Act requirements within the Council. This will be committed to the costs of one off posts required to implement the changes and training costs for staff within Adult Services. Unspent IBCF monies to fund the IBCF programme in future years.	4,827	-4,000	827
Economic Development Workshops Major	Established to meet the costs of major maintenance of Economic Development Workshops.	149	-49	100
External Fund Reserve	Reserves held where the Council is the administering body for trust funds or partnership working.	1,399	0	1,399
Financial Strategy Reserve	Established specifically to provide one off funding for savings proposals in the Financial Strategy	20,867	0	20,867
Savings Management - Highways	Established specifically to provide one off funding for highways savings proposals in the Financial Strategy	7,098	-6,098	1,000
Highways Development & Innovation Fund	Set aside funds for pump priming the Development and Innovation programme.	385	0	385
New Homes Bonus	Established from unapplied New Homes Bonus Grant balances.	2,608	-821	1,787
Public Health Reserve	This reserve includes balances committed to specific public health projects.	255	0	255
Repairs & Maintenance Reserve	Set aside for known repairs and maintenance required to Council owned properties.	966	0	966
Resources Efficiency	Established for investment in new developments, particularly information technology, that service area would not be expected to meet from their internal service level agreements for support services.	452	0	452
Revenue Commitments from Unringfenced Revenue Grants	Established from unapplied unringfenced Grant balances. Commitment have been made against these balances in 2019/20 and future years.	942	-268	674
Severe Weather	Required to meet unbudgeted costs arising from the damage caused by severe weather. The policy of the Council is to budget for an average year's expenditure in the revenue accounts and transfer any underspend to the reserve or fund any overspend from the reserve.	2,924	-114	2,810
TMO Vehicle Replacement	Set up to meet the costs of replacement vehicles by the Integrated Transport Unit.	300	0	300
		43,471	**-11,350**	**32,121**
School Balances				
Balances held by schools under a scheme of	Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion.	4,179	0	4,179
Education – Staff Sickness Insurance	Schools' self help insurance for staff sickness with premiums met from delegated budgets.	18	0	18
Education – Theft Insurance	Schools' self help insurance scheme to cover equipment damage and losses.	65	0	65
Schools Building Maintenance Insurance	The schools building maintenance insurance scheme is a service provided by Property Services for schools. In return for an annual sum all structural repairs and maintenance responsibilities previously identified as the "authority's responsibility" are carried out at no additional charge to the school.	2,164	0	2,164
		6,427	**0**	**6,427**
Total Reserves		**71,726**	**-22,683**	**49,044**

A projection has been made on the level of earmarked reserves that will be held over the next 5 years of the financial strategy based on likely timescales of when these balances will be used to fund known commitments, investment in service redesign and help to smooth the impact of savings proposals. Overall a reduction of 53% is anticipated in the earmarked reserves held with the most significant reduction coming within the Financial Strategy Reserve in the next two years, and this is shown in the graph below.

Figure 18: Projected Earmarked Reserves



Robustness of Estimates

Each year council considers a Statement of the Robustness of Estimates. Budget estimates are estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but in an objective and systematic manner gives members reasonable assurances that the budget has been based on the best available information and assumptions.

In order to meet the requirements for the robustness of estimates a number of key processes were put into place, including:

- Review of expenditure and resources for the entire council for next five years to identify the underlying viability of the council's resource envelope when compared to cost.
- Review of existing budgets and focus on key risk areas as part of the budget setting and budget monitoring process. For example, our key risk areas in terms of budget size and volatility is Adult Services and Children's Safeguarding. In order to review this, growth models for both service areas have been developed which look at the cost drivers for these service areas. As a result we have a better understanding of the pressures in this area and have used this in the modelling of future costs. This has been successful for some time however, growth pressures continue to over and above the original assumptions. Breaches of a small percentage have a significant impact in terms of value.
- Identification of the in-year and the full year impact of any variations compared to budget. This ensures that the underlying budget and any pressure can always be separately identified and arrangements to manage pressures (for example by the use of one-off resources) is undertaken in an open and transparent mechanism, approved by Cabinet.
- The Financial Strategy and Budget Monitoring Reports are updated and reported to Cabinet on a quarterly basis. In this period of unprecedented uncertainty in terms of Local Government funding and spending pressures, the latest position is always reported transparently even though this position can change significantly from one reporting period to the next.
- Separation of roles within the Finance Team in setting budget control totals, identifying budget requirement and inputting into the Finance System which is subject to review by Internal Audit as part of the Council's Internal Audit Plan.
- Review by Finance Staff with Service Managers to understand the achievability, deliverability and timescales for all proposed service redesign.
- Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on Senior Managers having proper arrangements in place to identify issues, project demand data, performance information and to consider value for money and efficiency.

Robustness of Revenue Estimates

The 2020/21 budget process continues progress in improving the Council's budget preparation, most notably in the creation of a detailed growth model and the process of medium term forecasting due to information and trend data drawn from the monitoring of the budget and associated systems, reported as a minimum to Cabinet on a quarterly basis.

As part of developing the 2020/21 budget, Council Members have had the opportunity to review the available options, implications and impact on outcomes, and these are reflected in the proposed budget.

The development of the 5 year financial strategy is based on the assumption that services need to be delivered and funded through an appropriate level of resources over the next five years and this is demonstrated in the resources and expenditure projections given in Table 1 below. This includes assumptions around savings to be delivered as part of the Financial Strategy.

Table 12: Gross Resources and Expenditure Projections

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Projected Resources	595,112	557,262	565,650	574,839	589,253
Current Projected Expenditure	625,176	594,308	607,231	624,861	646,167
Funding Gap	**30,064**	37,046	41,581	50,022	56,915
Year on Year Gap		**6,982**	**4,535**	**8,441**	**6,893**

Savings proposals have been identified for 2020/21 through to 2022/23, however the Council is awaiting further clarity on the Fair Funding Review before formalising savings plans from 2021/22 onwards. The savings identified have been based on raising income, innovation and cutting services. Some of the savings values, whilst achievable, are ambitious and so progress against these proposals will be monitored carefully to consider the impact on the budget strategy. The specific factors taken into account in developing the draft budget are detailed below in Figure 19.

Robustness of Capital Budget

The agreed programme is fully funded within a 3 year timescale however this is heavily dependent on the Council generating significant levels of capital receipts. Projects have been costed at current year prices but may be subject to tender processes after inclusion in the programme which may lead to a variance in the final cost. In some areas, the design brief may not be finalised, again giving rise to potential price variance.

The risk of the Council being unable to fund variations outside of the programme is minimal mainly due to the phasing of projects. If necessary, the Council can choose to freeze parts of the programme throughout the year to ensure spend is kept within the agreed budget.

There are two main risks associated with the Capital Programme.

- Firstly, the ability to deliver the capital programme within the agreed timescales. Slippage from 2019/20 is fully funded over the Financial Strategy period but this in itself will increase pressure on the Council to deliver the anticipated 2020/21 programme.
- Secondly, the draft three year programme includes projects funded from anticipated capital receipts. In the current climate these receipts may be lower than anticipated or may not materialise in the expected timeframe which will have to be managed through a robust monitoring process.

The capital programme will be actively managed and reprofiled during the course of the financial year to reflect scheme delivery timescales and revisions to funding agreements for projects. At the end of the year, however, slippage within the programme normally occurs which had not previously been anticipated. This will be due to delays in delivery of schemes and the net of underspends and overspends against specific projects. As shown in Table 2 below, in 2018/19 there was slippage of £15.728 which represents 24% of the revised capital programme. Action has already been taken during the course of 2019/20 to reprofile budgets to future years to reflect latest data on project delivery.

Table 13: Three Year Capital position (£000's)

	2018/19	2019/20	2020/21
Capital Programme	+53,398	68,336	123,029
Reprofile Budgets	+13,305	-7,064	0
Revised Capital Programme	+66,703	61,272	123,029
Slippage	-15,728	0	0
Actual Capital Programme	+50,975	61,272	123,029

The capital programme includes a target for capital receipts to be delivered to ensure the programme is fully funded and removing the necessity for prudential borrowing to be undertaken to meet a funding gap. This target generally decreases during the course of the year to reflect the reprofiled budget, however the full capital receipt target will still be required to fully fund the capital programme.

Over the last 2 years (2018/19 and 2019/20) the level of capital receipts has been sufficient for a balance of capital receipts to be carried forward to offset any requirement for funding in the next financial year. This has been managed by natural slippage in the programme which has enabled other sources of funding to be used initially. In 2020/21 the level of capital receipts required is £12.423m and a shortfall of £7.114m currently exists within receipt projections. There are currently £18.785m of further assets being considered for disposal which would address this shortfall if progressed. Whilst every effort will be made to bring this level of resources in to the Council, should there be a delay in the delivery schedule of capital receipts it is anticipated that this will again be controlled through natural and potentially managed slippage in the capital programme.

Figure 19: Analysis of Budget Assumptions and Financial Risks, including the Council's Financial Management Arrangements and Appropriate Mitigation

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
1. The treatment of inflation	There are two key issues in relation to inflation. • There may be some items of expenditure – fuel or energy costs for example - where any estimate of inflation is a 'best guess'. The risk assessment considers the average level of inflation experienced over a 5 year period and so reflects the higher levels of inflation that may seem to be unreasonable to include in a budget, but might come to pass. • Information is less accurate for years 2 onwards; the risk assessment covers the higher range. It is difficult to predict the direction that the wider economy will take and thus the level of inflation required. The risk on inflation resulting from Brexit has been included based on government projections off a Brexit deal and a no deal Brexit.	Pay – 2% has been provided in the 2020/21 budget to reflect the pay award (pending) for staff with 2% thereafter. Funding has also been provided for increments due to be awarded for 2020/21 based on existing staffing levels. Pension contribution rates are at the increased rate of 17.4% introduced in 2019/20. Price inflation has been provided on contractually or quasi-contractually committed budgets at the rate stated in the relevant agreement.
2. Interest rates on borrowing and investment	This issue here are similar to those in 1 above, but for a specific area. The Council's policy of generating capital receipts to prevent new borrowing, and allowing existing borrowing to mature has resulted in a reduction in available cash balances to invest. The level of interest rates on investments has also dropped to record lows resulting in reduced returns on cash balances. In the past it was possible for the Council to lend money and get a better interest rate than it was paying for borrowed money. The Council's borrowing has been undertaken at fixed rates of interest and so the level of interest payable is not considered as a risk to variable rates. However if borrowing should be required, there is a potential risk that any new borrowing may not be	Interest receivable budgets have been set based on 0.75% interest receivable. These range from investments for 12 months gaining 1% to short term call accounts which gain between 0.53% and money market funds achieving rates of 0.7% The average interest rate of the total debt portfolio (excl. HRA) is calculated at 5.1% for 2020/21 and this is used for all borrowing costs.

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
	secured at similar interest rates to those currently budgeted for.	
3. Estimates of the level and timing of capital receipts.	The Council has developed an asset management strategy and has a policy of reducing borrowing costs around the capital programme where possible. Therefore the capital programme is dependent on the delivery of capital receipts. The planned receipts estimated to the Council are made more difficult due to reducing market values and problems for potential procurers in obtaining finance. The risk around an economic downturn in relation to Brexit has also been factored in.	Capital receipts are monitored monthly in the capital monitoring report and are RAG rated in terms of their anticipated delivery against target.
4. The treatment of demand led pressures	There are long standing areas of risk due to volatility, where we budget for demographic changes in future years, but might find the actual is at the higher end resulting in a shortfall, particularly in the short term. Two areas specifically affected by demography are adult social care and children's social care, where we have seen significant budget pressures due to increasing numbers of clients receiving care packages.	Managers review their base budgets including demand led pressures. Services are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their Service budgets. If this is not possible and under-spending management action or policy actions in other Services are not sufficient to cover the additional demand, then reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and it is assumed that general fund reserves are restored to an appropriate prudent level over the course of the Financial Strategy. The 2020/21 budget has been based upon specific demand levels identified during budget monitoring in 2018/19 and six months of 2019/20 and projections made by Heads of Service of demand levels in future years. A growth model for both Children's social care and Adults social care is relied upon for setting these budgets.
5. The treatment of efficiency savings	The budget includes improvement programmes that will deliver savings; the risk is that they may be delivered at a slower rate. This includes total savings targets of £24m over the next five years projected in the Financial Strategy which will have risks involved in terms of delivery, and also from delays in delivery. It should also be noted that	All Managers have a responsibility to ensure the efficient delivery of services and when efficiency savings are proposed that those savings are both realistic in terms of the level of savings and timing. Should the level and timing of such savings vary due to unforeseen events and under-spending, management action or policy actions within the relevant Service Area and corporately will be implemented where appropriate. Alternatively the General Fund Balance will be utilised as a temporary

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
	from year two of the Financial Strategy the Council has a funding gap of £23.6m which rises to £67.2m will require compensatory savings to be identified. The savings whilst achievable are ambitious and this should be reflected in the risk factor applied.	funding mechanism until the full savings are achieved. If the funding gap remains unresolved by future savings plans the council will need to consider making further efficiencies and/or potentially increasing council tax.
6. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The Council may decide to establish separate delivery vehicles in order to improve service delivery in the future. Full business cases are required for any services being considered for transfer to an alternative service vehicle.	The sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service volumes). If risks materialise the expectation is that such an eventuality will be considered in future years' budgets. Business cases for any new delivery vehicles will fully investigate any financial risks that the Council may face in the future and the Financial Strategy updated accordingly.

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
7. The availability of other funds to deal with major contingencies	Were a disaster to occur, we have to have a reserve in place to pick up costs that will fall to the Council. The impact of flooding within the Council area based on present experience is that it is limited to localised pockets. The geographical area covered by the Council has resulted in budget pressures in some years due to extreme weather conditions and additional costs such as snow clearance. Changes to the base budget provision has been made in previous years to help mitigate this, but overspends in previous years have, at times, been in excess of this growth level. In more recent years it has not been necessary to utilise all available funding, but a risk remains. Other disasters such as those relating to ICT could occur on a one off basis.	The level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the general fund balance may have to be used. An earmarked reserve has been established for Severe Weather however any pressure not covered by this reserve would need to be funded from the general fund balance. A risk based approach in calculating the general fund balance takes into consideration the types of incidents and costs associated and this is reviewed annually. The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations and those specific to the authority. Therefore the values of Insurance Reserves are reviewed each year to ensure that the optimum balance is held based on the level of outstanding liabilities. Any major incident or emergency may result in significant costs to the Council. Depending on the incident concerned, the Council may be able to recover such costs through the Bellwin Scheme however the Council would need to cover any expenditure up to the agreed threshold level. This level is fully included within the Council's general fund balance.

<table>
<tr><th>Budget Assumption</th><th>Explanation of Risk</th><th>Financial Standing and Management and Mitigating Action</th></tr>
<tr><td>8. Impact on council funding of announcements of national changes</td><td>Council funding is always subject to change, especially in the current economic climate. However the Financial Strategy takes account of projected changes in the Revenue Support Grant and specific government grants.

In recent years the Dedicated Schools Grant allocation to the Council has come under pressure, in relation to the costs of supporting High Needs Pupils and the centrally retained share due to the academisation process.</td><td>The major risk factor included is in relation to the Housing Benefits grants which the Council receives. Changes are planned for welfare benefits which may increase the Council’s exposure to costs over and above the grant that is received. This has been factored into the General Fund risk based calculation.

The risk around a shortfall in the Dedicated Support Grant arising from High Needs costs and academisation programme has been quantified as any overspend in this area would need to be picked up within the General Fund Balance.</td></tr>
<tr><td>9. The overall financial standing of the authority (level of, debt outstanding, council tax collection rates etc.)</td><td>Changes may mean doing things in a way for which we have no ready evidence and any assumptions made may be wrong. Additionally, the areas of change will alter over time.

An allowance for budget pressures has been built in to accommodate any corrective action that needs to be taken if the assumptions about changes in service delivery should change.

In the current economic downturn the risk of collecting all income due to the Council is enhanced, which includes all sundry debt, and charges relating to Council Tax and Business Rates. Any such pressure identified should be evaluated and provided for.

Income from fees and charges is also vulnerable to change based on the current economic climate. This is likely to continue and is adjusted for within the Financial Strategy, but is subject to short term negative variations from year to year.

The impact of Brexit and a further economic downturn also needs to be factored in as a key risk to income collected by the Council.</td><td>The level of aged debt within the sundry debtors figure is monitored reported to management regularly so that the appropriate action may be taken. Bad debt provisions are maintained to protect the budget against any such pressures, but should these not be sufficient, the general fund would be used.

The assumed Council Tax collection rate for 2020/21 onwards is 98.3% and is judged to be achievable based on previous experience. Legislation states that any Collection Fund surplus/deficit be corrected through the Council Tax in the next year. The surplus is distributed in 2019/20.

An income review is produced for Cabinet covering income from fees and charges. This review considers the level of income as monitored in the quarterly revenue monitors to Cabinet, and considers the impact of increases in charges, or the freezing of charges on the 2020/21 budget.</td></tr>
<tr><td>10. The authority’s track record in budget and financial management.</td><td>Any overspend realised in a financial year would result in the use of the general fund balance. The Council has identified that general fund balances need to be in place in order to protect the Council against specific financial risks, and so any general overspend due to weaknesses in budget management, undermine any planned action being taken on the</td><td>The Council’s recent track record in budget and financial management 2014 to 2020 shows potential variations from a £5.9m overspend to a £2.8m underspend (a range of £8.7m).

<table><tr><th>Financial Year</th><th>(£‘000)</th><th>Underspend/ Overspend</th></tr><tr><td>2014/15</td><td>(300)</td><td>Under</td></tr></table></td></tr>
</table>

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
	General Fund Balance. Financial management needs to be considered across all service areas of the Council. If a particular service area is unable to manage a particular overspend pressure, this may present a need to use general fund balance in the current financial year. Also this may have implications on future level of balances if no action is taken to reduce the spending pressure for the service area in future years or offset by compensating savings.	2015/16 — (2,816) — Under 2016/17 — (894) — Under 2017/18 — (613) — Under 2018/19 — (167) — Under 2019/20* — 1,705 — Over Total 2014 to 2020 — — Over * Projected Outturn position Each year the Council manages budgets carefully and takes necessary management action to bring the budget into balance. Ultimately, financial performance relies on all budget holders actively managing their budgets and complying with financial rules, including not committing expenditure if there is no budget provision available. The most recent three years outturn position shows that variances are underspends. Management action is planned to bring the 2019/20 overspend back into balance. The authority needs to continually improve its ability to manage in-year budget pressures. The following steps are already in place: • Accuracy of projections has improved over the year, but further work is required. • The monitoring system continues to be improved in terms of accuracy, the frequency of reporting and the challenge process. Financial monitoring is undertaken by line managers within Business World and Finance review the projections to ensure that the monitoring position reported is appropriate. The Council's virement and carry forward rules are clear and detailed in the Constitution.

7.1 Housing Revenue Account

The Housing Revenue Account (HRA) is intended to record expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants. Shropshire Council inherited it's housing stock from Oswestry Borough Council and Bridgnorth District Council when the Council took on unitary status in 2009. The Council transferred the management of the housing stock into an Arm's Length Management Organisation (ALMO) called Shropshire Towns and Rural Housing (ST&RH) in 2013.

ST&RH manage just over 4,000 houses within the HRA and they collect rent, order repairs and make improvements to all the housing.

In 2011 the Government removed the Housing Revenue Subsidy system and enabled HRAs to take out self-financing borrowing. Shropshire Council took out borrowing of £83.5m in 2012 as a result of this directive and so the HRA is required each year to repay interest and debt charges in relation to this borrowing. Councils were initially only permitted to borrowing funds to support new housing builds to a specific level, however in 2018 the Government removed this borrowing cap from the HRA in a bid to allow councils to address the housing crisis in the country.

Within the Council's Housing Revenue Account the Council currently has plans to develop approximately 25 properties a year and the projected costs of these have been included within the capital programme and is funded by a revenue contribution to capital. This revenue contribution to capital will reduce the housing revenue account reserve balance that has built up over a number of years. The Longer term plans for the Housing Revenue include increasing the borrowing limits within the Housing Revenue Account based on affordability calculations to invest further in the development of social housing within Shropshire.

SHROPSHIRE COUNCIL HOUSING REVENUE ACCOUNT

2019/20 Budget £		2020/21 Budget £
	Income	
(16,945,000)	Dwellings Rent	(17,323,050)
(122,030)	Garage Rent	(105,490)
(17,000)	Other Rent	(17,000)
(607,190)	Charges for Services	(641,000)
(17,691,220)	**Total Income**	**(18,086,540)**
	Expenditure	
8,268,230	ALMO Management Fee	8,466,650
538,310	Supplies and Services	571,380
3,770,150	Capital Charges - Dwelling Depreciation	3,780,100
169,960	Capital Charges - Depreciation Other	172,020
2,991,960	Interest Paid	2,991,960
500,000	Repairs charged to revenue	500,000
4,898,160	Revenue Financing Capital Expenditure	3,699,100
150,000	New Development Feasibility	150,000
50,000	Increase in Bad Debt Provision	50,000
163,960	Corporate & Democratic Core	168,500
21,500,730	**Total Expenditure**	**20,549,710**
3,809,510	**Net Cost of Services**	**2,463,170**
(30,000)	Interest Received	(30,000)
3,779,510	**Net Operating Expenditure**	**2,433,170**
3,779,510	**Net Cost of Service/(Surplus) for Year**	**2,433,170**
	HRA Reserve	
9,813,486	B/fwd 1 April	8,365,762
(1,447,724)	Surplus/(Deficit) for year (Estimated)	(2,433,170)
8,365,762	Carried Forward 31 March	5,932,592

8.1 Links to Capital Strategy and Revenue Implications of the Capital Strategy

The Council is required to have a capital strategy in place that sets out the long term context in which capital expenditure and investment decisions are made to ensure that authorities are taking account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy recognises that the financial resources available to meet capital expenditure priorities are constrained by a significant reduction in financial resources and ensure that investment decisions taken are at least self sustaining financially whilst also generating positive returns in terms of meeting priorities.

The Capital Programme will be funded from the following sources:

- Capital Receipts
- Prudential Borrowing
- Developers Contribution (S106, CIL)
- Revenue Contributions
- Capital Grants

Where Prudential Borrowing and Revenue Contributions are to be used to fund capital schemes, it is necessary that the costs of borrowing or the revenue contribution to capital is built into the revenue financial strategy. As outlined in section 4.4 of the financial strategy, cost of investment budgets have been built into 2020/21 budget and future years in order to provide for capital schemes being financed from prudential borrowing that are planned to be delivered in the next 5 years.

The Council has also identified a number of future capital and investment schemes within the capital strategy, however as these schemes have not yet completed a full due diligence process, these do not yet form part of the approved capital programme and so associated revenue costs that may be required have not been built into the Finance Strategy. As outlined above, it is expected that these schemes will be fully funded and will therefore not create a further burden on the Finance Strategy of the Council. It should also be noted that no financial savings arising from any of these capital investments has similarly not been projected within the Finance Strategy.

Policy for Flexibility around the use of Capital Receipts

The greater flexibilities around the use of capital receipts offered in the financial years 2016 to 2022 allow the Council to utilise capital receipts generated in this period to fund the revenue costs of service reform. Any qualifying expenditure under this flexibility must be on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years.

Over 2020/21, Shropshire proposes to use the flexibility to help fund the following:

- £2.996m to fund redundancy costs. This is in line with an average annual cost of redundancy of approximately £3m over the last 3 years and will allow the council to manage service redesign and restructure changes.

In 2017/18, 2018/19 and 2019/20, this flexibility has been used to fund redundancy costs and contributed towards the costs of the Digital Transformation Programme.

The reduction in staffing numbers enabled through the redundancy programme, has allowed the Council to deliver revenue savings as highlighted in previous years Financial Strategies. The first stage of the Digital Transformation Programme is coming to an end in 2018/29 and the new processes and systems will need to be embedded over the course of the next financial year so that savings, both cash and efficiency savings can be realised.

8.2 Links to Treasury Strategy

The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice in setting Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Treasury Strategy outlines affordable borrowing limits based on the level of capital expenditure planned within the Capital Strategy and also considers the requirement for taking out new borrowing. The Council is currently under-borrowed as funding for capital schemes from high cash balances rather than new prudential borrowing given that returns on cash balances are low and the Council is currently holding a healthy cash balance due to levels of reserves being held at a reasonable level. As reserve levels drop in future years as outlined in section 6.2 of the Financial Strategy, the Council may be required to undertake external borrowing, and a number of factors will need to be considered before committing the Council to the additional costs resulting from external borrowing.

9.1 Links to Corporate Plan

The Council's Corporate Plan was agreed by Cabinet in November 2018. This outlines the Council's vision to "Innovate to Thrive " recognising that the Council needs to grow the economy by supporting our local communities to enable them to thrive in the long term whilst preserving the natural and historic environment that is found in the beautiful rural county of Shropshire.

The Council has established six priorities within the Corporate Plan as outlined below:

- More people with a suitable home
- Care for those in need at any age
- A good place to do business
- A healthy environment
- Sustainable places and communities
- Embrace our rurality

The key actions planned over the next 12/24 months are outlined in Table 14 below and details of how the Financial Strategy has supported the delivery of these priorities is also included:

Table 14: Key Actions in Corporate Plan Linked to Financial Strategy

Key Actions	Links to Financial Strategy
Priority : More people with a suitable home	
The Council will work with developers to shape the housing market to ensure the development of housing to meet local need.	The Council has established its own Housing Company, Cornovii Developments Limited to help address unmet housing need and is supporting the development of housing through the provision of loan and equity funding to the company for the costs of development.
The Council will manage its Housing Stock through appropriate vehicles and work with partners to improve and ensure the availability of social housing.	The Housing Revenue Account includes a budget for the development of social housing during the next financial year to increase the availability within the county.
Priority: Care for those in need at any age	
The Council will ensure that children and young people are safe and fulfil their potential in their future lives.	Additional funding has been built in children's safeguarding to ensure that the budget is sufficient to meet the growing demand for services.
The Council will harness innovation in technology to help people to be as independent as they can be and live and take part in their communities.	The Council has implemented digital solutions where appropriate such as Telecare services which has enabled revenue savings to be delivered within the budget.

LINKS TO OTHER CORPORATE STRATEGIES

Key Actions	Links to Financial Strategy
The Council will work with partners and providers to ensure that the right care is available in the right place at the right time.	Additional funding has been built into the Adult Social Care budget to ensure that the increasing demand for services can be met despite the lack of funding for this statutory service.
Priority: A good place to do business	
The Council will work with businesses and developers to identify and pursue appropriate opportunities for investment that will grow Shropshire's economy.	The Council is committing funding to Economic Development and also pursuing capital schemes such as enhancing infrastructure within Shropshire to provide opportunities for Shropshire.
The Council will work with its partners in business, training and education to create employment and career opportunities in Shropshire for all.	The Council has not included any savings within the services provided to encourage employment and career opportunities.
The Council will work with businesses and developers to promote clean growth and safeguard our natural assets including water quality and supply.	No savings have been included within the financial strategy in relation to safeguarding the county's natural assets.
Priority: A healthy environment	
The Council will ensure that its infrastructure and assets are as efficient and environmentally sensitive as they can be to reduce environmental pollution.	The Council has signed up to a climate change strategy to ensure that the Council drives down its carbon emissions and specific posts have been created within the Council's structure to facilitate delivery of this.
The Council will work with partners to maintain Shropshire's landscapes, culture and heritage to support good health, communities and growth of the economy.	The costs of supporting Shropshire's landscape has been protected within the Financial Strategy for 2020/21 and no savings have been included for this service area.
The Council will encourage positive lifestyle choices and in doing so provide information, advice and opportunities for health and well-being.	The Financial Strategy had previously included savings within the Public Health service, however it is recognised that these savings can no longer be delivered and so savings of £0.900m have been reversed in the 2020/21 Financial Strategy.
Sustainable places and communities The Council will continue to encourage communities to support each other and find local solutions.	The costs of supporting Shropshire's communities has been protected within the Financial Strategy for 2020/21 and no savings have been included for this service area.
The Council will work with Town and Parish Councils to identify opportunities and develop local economies across Shropshire, centred on the market towns.	Economic growth within the Shropshire market towns is an area protected from savings within the Financial Strategy for 2020/21.
The Council will continue to implement a place based approach to optimise physical assets with our partners and deliver services where the greatest number of people can access them.	The Council is investing in digital technology and reviewing its asset base in order to optimise how services are delivered to people in order to deliver savings across the Council where this is possible.

Key Actions	Links to Financial Strategy
Priority: Embrace our rurality	
The Council will continue to influence improvement in mobile and digital connectivity across all areas, for all age groups, and homes and businesses.	The Council continues to invest in the rollout of broadband across the county within the capital programme with further focus to deliver connectivity within rural areas that have previously struggled with network coverage.
The Council will continue to work with partners from across the West Midlands and into Mid-Wales to improve physical connectivity to the benefit of all those who live, study and work in Shropshire.	Joint working with partners is encouraged within the financial strategy, to ensure that efficiencies and savings are achieved where possible and joined up services can be provided across County boundaries. Savings in relation to joint working have specifically been included for Adult Services.
The Council will continue to work across the business sectors which operate in rural areas to facilitate economic growth and appropriate housing for rural communities.	The Financial Strategy assumes economic growth across all business and funding provided to develop the housing company will ensure housing delivery in areas that the private sector is not meeting the housing needs for Shropshire and its rural communities.

9.2 Links to Asset Management Strategy

The Asset Management Strategy provides a framework that sets out how and why property decisions will be made, and how the Council lead and co-ordinate a process that involves service areas, portfolio holders, members, local businesses and the community.

The portfolio of assets held by the Council are categorised into 5 categories:

- Operational
- Heritage and community value assets
- Development and regeneration
- Investment
- Disposal

The assets categorised as investment assets are being held for the purposes of income generation and/or future development so that it may derive a return. In line with the Capital Strategy investment in this portfolio of assets will help to increase and optimise income within the Financial Strategy.

Where assets are classified as for disposal, this will include assets that no longer fit in any of the other four categories, and so can be disposed of in order to provide necessary capital receipts to fund other capital schemes outlined in the Capital Programme. The may be appropriate for schemes that meet the Council's corporate objectives, but may not generate any savings or additional income to fund the costs of the capital scheme. If the Council could generate capital receipts in excess of identified need from this portfolio, this would enable capital receipts to be used for schemes that generate either a financial saving or additional income and allow this to be fully realised in the financial strategy. As a result, it is essential that the Asset Management Strategy, the Capital Strategy and the Financial Strategy are aligned so that the financial implications are fully considered of any decisions being made within the property portfolio.

9.3 Links to Commercial Strategy

In response to the budget shortfalls and increasing demand for services, the Council has recognised the need to take control of its own destiny and become financial sustainable. In doing so, the Council is committed to thinking and acting more commercially.

The Commercial Strategy outlines how this will be achieved through the generation of additional income, develop new models of working, ensure there are efficient and effecting working practices, and by investing in land and property within Shropshire.

The capital strategy considers the mechanism for approving new commercial investment schemes, although the principal reason for undertaking a new investment will be to secure a service objective and related benefits. The generation of financial returns will normally be a secondary reason and therefore the yield that each investment will achieve is a key consideration for undertaking any investment by the Council.

Within the Financial Strategy the Council has made provision to fund the borrowing costs relating to commercial investments to a level of £20m per annum for the period 2019/20 to 2022/23. This funding will enable the Commercial team to act responsively to opportunities as they arise once due diligence has been performed to confirm that they are viable commercial opportunities for the Council.

Key income targets have already been included within the Council's Financial Strategy as a result of commercial activity including income generated from the Shopping Centres, and a number of projects have started to be delivered which will generate future income streams for the Council. Once these schemes have been delivered in full, income streams will be confirmed and included in future versions of the Financial Strategy as additional savings targets.

9.4 Links to Workforce Digital Strategy

Shropshire Council has introduced a Workforce Digital Strategy in order to help the Council deliver services more efficiently to a rural county. It also identified that given the financial pressures that the Council is facing that going digital is a relatively easy way to save money as will reduce costs such as printing, postage and travel and also make processes more efficient by saving time for officers across the Council.

The Workforce Digital Strategy include six key commitments:

1. Use technology to improve our services for everyone, making digital the preferred way to operate, communicate and transact with our customers, colleagues and partners.
2. Digitise all our data, records and reports to enable agile working, transparency and slicker decision-making, whilst reducing our need for physical assets for work and storage.
3. We will greatly increase the use our data to promote better business efficiency and improved customer service.
4. Develop technology (as well as public spaces and workforce) that enable us to be agile, flexible, adaptable and responsive to change.
5. Instil a ‘curious’ culture that values, incentivises and expects continuous service improvement and digital ways of working from every member of staff.
6. Develop and train the next generation of technology users – both the general workforce and the staff that support and maintain digital services - reducing our reliance on external consultants.

In achieving these commitments, the Council plans to digitise records, print less, post less, automate where possible and work towards a more efficient method of customer service. These will not only generate financial savings which have been factored into the Financial Strategy at section 4.5 but also save time through efficiencies of working differently. It is intended that as the Council moves to a more digital way of working further opportunities for savings both cashable and non-cashable will arise and future financial strategies will include any additional financial savings that can be identified.

Within the Financial Strategy, the Council is committed to supporting investment in new technologies in support of this strategy and this is evidenced through the inclusion of growth within section 4.4 of the Strategy for IT investment. It should also be noted that investment continues within the Capital Strategy for the Digital Transformation Programme in addition to this.

10.1 Budget Consultation Exercise and Responses

The Budget Consultation was launched on 7th January 2020. It has been advertised in the Shropshire Council newsroom and via a number of social media channels. A total of 68 responses have been received to date, which is less than received in the preceding years, and represents a low proportion of the population of Shropshire. Consultation remains open until 18 February 2020, and the final position will be included in the Council Report of 27 February 2020. The website link to the consultation is https://www.shropshire.gov.uk/get-involved/budget-consultation-2020/

The consultation has, so far, drawn responses from a broad cross section of the community. Of the 68 respondents 42% are male and 45% female with the remainder preferring not to say. 19% are between the ages of 35-44, 19% between the ages of 45-54, 14% between the ages of 25-34 and 14% between the ages of 65-74. Responses have come predominantly from local residents but also those representing a local town, parish or rural parish council.

The first question was addressing the Council's plans to raise Council Tax by 3.99% in 2020/21. 80% of those responding disagreed with the proposed Council Tax increase and comments supporting this referred to the lack of investment in highways or infrastructure in their particular area.

The next sections of questions looked at each directorate's savings proposals and allowed respondents to say whether they agreed, disagreed and thought it should be more, disagreed and thought it should be less or had no opinion on the different saving categories. The results of the feedback on savings proposals are detailed in Table 15 below.

Table 15: Feedback on Savings Proposals

	Category of Savings				
	Income Generation	Joint Working	Review of Contracts	Transformational Savings	Use of Grants/Reserves
Adult Services	**1,126,000**	**750,000**	**1,707,810**	**2,555,900**	**814,000**
Agree	24%	30%	44%	35%	38%
Disagree, should be more	6%	22%	21%	21%	17%
Disagree, should be less	29%	18%	15%	16%	11%
No Opinion	41%	30%	21%	29%	33%
Children's Services	**0**	**0**	**0**	**2,400,000**	**0**
Agree				22%	
Disagree, should be more				16%	
Disagree, should be less				30%	
No Opinion				32%	
Place	**3,176,000**	**0**	**307,730**	**1,547,760**	**2,440,000**
Agree	25%		34%	27%	32%
Disagree, should be more	34%		25%	24%	15%
Disagree, should be less	27%		16%	19%	20%
No Opinion	32%		25%	31%	33%
Finance, Governance and Assurance	**320,000**	**0**	**163,000**	**519,820**	**97,180**
Agree	22%		30%	21%	27%
Disagree, should be more	22%		30%	26%	16%
Disagree, should be less	16%		11%	16%	16%
No Opinion	40%		30%	37%	41%
Legal and Democratic Services	**8,000**	**0**	**224,110**	**167,980**	**0**
Agree	28%		27%	28%	
Disagree, should be more	24%		39%	28%	
Disagree, should be less	13%		7%	15%	
No Opinion	35%		27%	30%	
Workforce and Transformation	**0**	**0**	**716,000**	**1,884,000**	**0**
Agree			28%	23%	
Disagree, should be more			30%	30%	
Disagree, should be less			19%	20%	
No Opinion			23%	27%	

PUBLIC CONSULTATION

Respondents were also asked if they wished to highlight any alternative savings proposals. 25 comments were received with varied responses, however key themes surrounded the need to invest in other parts of the county instead of spending only in Shrewsbury and selling the shopping centres to use the money elsewhere.

Given the significantly low proportion of responses received, it is not possible to consider whether the responses received provide a true representation of views of the budget within Shropshire. Responses received were generally in support of the proposals and the major disagreement to the proposal was around the proposed Council Tax increase. However the comments linked to these do seem predicated on the delivery of services within a particular area of Shropshire. This feedback will be provided to the relevant department of the Council to help inform future service decisions.