



Committee and Date
Cabinet
6th July 2020

Item

FINANCIAL STRATEGY 2020/21 – 2021/22

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1. Summary

- 1.1 The Council approved the Financial Strategy on 27 February 2020, shortly before the impact of Covid-19 hit the UK. The Country entered lockdown from 23 March 2020 and Council Services were closed, delivered remotely or moved into emergency provision. Over two and a half thousand Council staff were required to work from home and/or make themselves available for redeployment. Business continuity measures were immediately put into place across the Council. Emergency spend was sanctioned, protocols to support suppliers, contractors and local businesses were implemented and a Council Tax deferral scheme was hurriedly introduced for the months of April and May. In addition to the longer term implications for Council Tax collection, other vital income sources for the Council – Business Rates, On-Street Parking, Theatre Severn – have been impacted. The requirement to deliver essential services to vulnerable people, the infrastructure costs, overheads and running costs supported by this income have not diminished and have, in many cases, grown.
- 1.2 The Government have announced multiple waves of funding and initiatives in response to the Covid-19 outbreak. Direct funding for the Council has included specific ringfenced grants and two tranches of general emergency funding amounting to almost £18m. Costs and income loss for the Council are estimated to exceed £36m over the financial year, demonstrating a potentially significant shortfall in the grant made available.
- 1.3 This report begins to set out our updated position. Only limited information is currently available, and while still in the midst of the pandemic, it is not possible to draw up a plan to navigate the medium term with any certainty. What is clear, however, is that the Financial Strategy approved by Council in February was already obsolete before the 2020/21 Financial Year began. The revised Medium Term Financial Strategy, attached at Appendix 1, sets out our understanding of the Council's financial position, focusing on the 2020/21 and 2021/22 Financial Years.

2. Recommendations

It is recommended that Members:

- A. Note the revised financial projections for the Council leading to a forecast funding gap of £18.5m in the 2020/21 Financial Year, and the options identified to resolve this.
- B. Note the revised financial projections for the 2021/22 Financial Year leading to a forecast funding gap of £33.3m in that year.
- C. Note that with additional government intervention to support the shortfall in Covid-19 costs in 2020/21, confirmation of one-off grants for 2021/22, delivery of existing savings targets in both financial years and utilisation of the Financial Strategy Reserve, a balanced budget over the two financial years can still be achieved.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Climate Change Appraisal

- 4.1 The Council's Financial Strategy, approved in February 2020, included proposals to deliver a reduced carbon footprint for the Council. The impact of Covid-19 has seen benefits in terms of carbon efficiency across the Council which have the potential to provide significant opportunities going forward. Services have been delivered on-line with the majority of staff working from home. This, in turn, has led to reductions in printing volumes, increases in online interaction, reduced staff travel and a resulting positive impact on climate change and pollution levels. Future plans will look to lock in these benefits

5. Financial Implications

- 4.1 This report sets out the financial implications for the Council over the 2020/21 and 2021/22 Financial Years. Details are contained within the Medium Term Financial Strategy attached at Appendix 1.

6. Background

- 5.1 Council approved the Financial Strategy 2020/21 – 2024/25 on 27 February 2020. The impact of the Covid-19 outbreak and associated actions and implications for the Council has necessitated the production of an updated report for consideration by Cabinet in July 2020.
- 5.2 This report updates Cabinet and includes details of the latest budgetary position for the Council. The existing quarterly revenue and capital monitoring reports will provide details on spending and income delivery in-year for Cabinet to consider.
- 5.3. As necessary, further reports will be brought to Cabinet and Council to update the Budget and Financial Strategy position as further information becomes available, and greater understanding of the financial implications of Covid-19

on the Council is obtained.

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

Financial Strategy 2020/21 - 2024/25 – Council, 27 February 2020
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Appendices

Appendix 1 – Medium Term Financial Strategy 2020/21 To 2024/25
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Medium Term Financial Strategy – July 2020

2020/21 – 2025/26

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MEDIUM TERM FINANCIAL STRATEGY INTRODUCTION

It is unusual for the Council to publish a revised Medium Term Financial Strategy only four months after Full Council approved the Financial Strategy in February. The impact of Coronavirus, or Covid-19, has, however, necessitated this action.

As set out in previous iterations of this document, 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.

In these unusual times, however, this is exactly the course of action we are being forced to take. The financial impact of Covid-19 on Shropshire Council had immediate effect from the date the country was placed into lockdown from 23 March 2020. The 2019/20 accounts reveal that the cost to Shropshire for the eight days of lockdown falling within that financial year was around £387,000. For Shropshire this fell, almost immediately, after recovering from the impact of flooding, the official cost of which was £460,000, but when considering the impact on road and highways infrastructure was in reality, in excess of £1m.

The approved Budget for the 2020/21 Financial Year was effectively obsolete before the year began, with plans for savings, service transformation and service delivery put on hold, to differing degrees, to deal with unprecedented implications of Covid-19 for the local authority, the public and local businesses alike.

To try to frame and understand our position, and set out an approach to managing it, we need to consider the following:

- What are the direct implications of Covid-19 and lockdown and how long will they last?
- What does a transitional period look like, what will it mean, and how long could it last?
- What will the environment look like when we return to some sort of normality, and when might that be?

In terms of the direct impact of Covid-19 on the Council we need to understand:

- What has been the direct cost of Covid-19 on the local authority, what has been led by national requirements and what has resulted from a local approach.
- What direct income has been lost, including significant income generating sources such as off-street parking, Theatre Severn and planning income.
- What has the impact been on Council Tax and Business Rates collection rates in the short and medium term.
- What has been the impact on delivery of savings proposals.

MEDIUM TERM FINANCIAL STRATEGY INTRODUCTION

The delivery of our 2020/21 savings proposals is currently being reviewed. The programme set out savings of almost £19m, and while around £4m is currently anticipated to be directly impacted by Covid-19, the balance of £15m must be delivered if the budget is to be balanced this year. An early RAG assessment has identified only £5m of savings in the Green category, placing £10m in Amber or Red and will be the focus for delivery over the remainder of the financial year.

At the time of writing, we estimate the direct financial impact of Covid-19 to be around £36m for the 2020/21 financial year, based on our current understanding. With a loosening of lockdown conditions this may reduce; with the impact of a second wave of the pandemic this would likely increase. At present we have received an £18m contribution toward this estimated cost and this is broadly in line with spending and income loss to date. The need for additional funding, income guarantees or even capitalisation of costs are all options we are putting to government to help manage this position over the remainder of the year.

The 2021/22 Financial Year is equally unclear. We now know that 'Fair Funding' – the comprehensive redesign of the current funding mechanism for local government in England – has been delayed from its already delayed implementation date of 1 April 2021. Instead, one-off grants received in 2020/21 are likely to be rolled forward, potentially without uplift, for another year. Shropshire Council has historically been, and continues to be, funded by government at levels below the England Average and this inequality, on top of the impact of Covid-19, will now be perpetuated for a further year.

Within this report, due to the time of writing, there are far more questions raised than answers given. It is necessary, however, to provide an update on the scale of the issues and the methodology for solving them at the first opportunity – clarifying that the budget approved in February 2020 needs significant revision in light of the conditions we are now in. To this end, there is very little that can be predicted in the current year and next, and only broad assumptions applied for the financial years beyond.

The impact of Covid-19 has, of course, provided opportunities. The Council has proved services can be delivered with the majority of staff working from home, services can be delivered on-line and Members can exercise their democratic duties through virtual meetings. We have seen huge reductions in printing volumes, increases in online interaction, minimal staff travel and the positive impact on climate change and pollution levels this brings. We will look to harness and lock in these and other benefits wherever we can. Where services are being delivered on-line we will look to improve the user experience for the future, rather than revert to old and increasingly outdated delivery models. We have initially grouped this work under five headings and this approach will be developed and revised and will ultimately help inform a new, emerging Corporate Plan and Financial Strategy for future years.

- People and Organisation – Skills, engagement, training and development
- Assets and Resources – Asset management, franchise models, capital receipts
- Tools and Systems – IT Infrastructure, system architecture, productivity
- Process – Automation, digital, paperless
- Customers and Partners – Delivery partners, micro economies, collaboration

MEDIUM TERM FINANCIAL STRATEGY INTRODUCTION

While the impact of Covid-19 is unparalleled and needs to be resolved, the Council must not lose sight of the fact that an underlying, structural funding gap is yet to be resolved. The above approaches, with a revised Fair Funding Strategy and favourable, multi-year Spending Round plan for the Local Government sector as a whole, will all play a fundamental role in creating financial sustainability for Shropshire Council.

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 or demographic changes that the Council is facing, but 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.

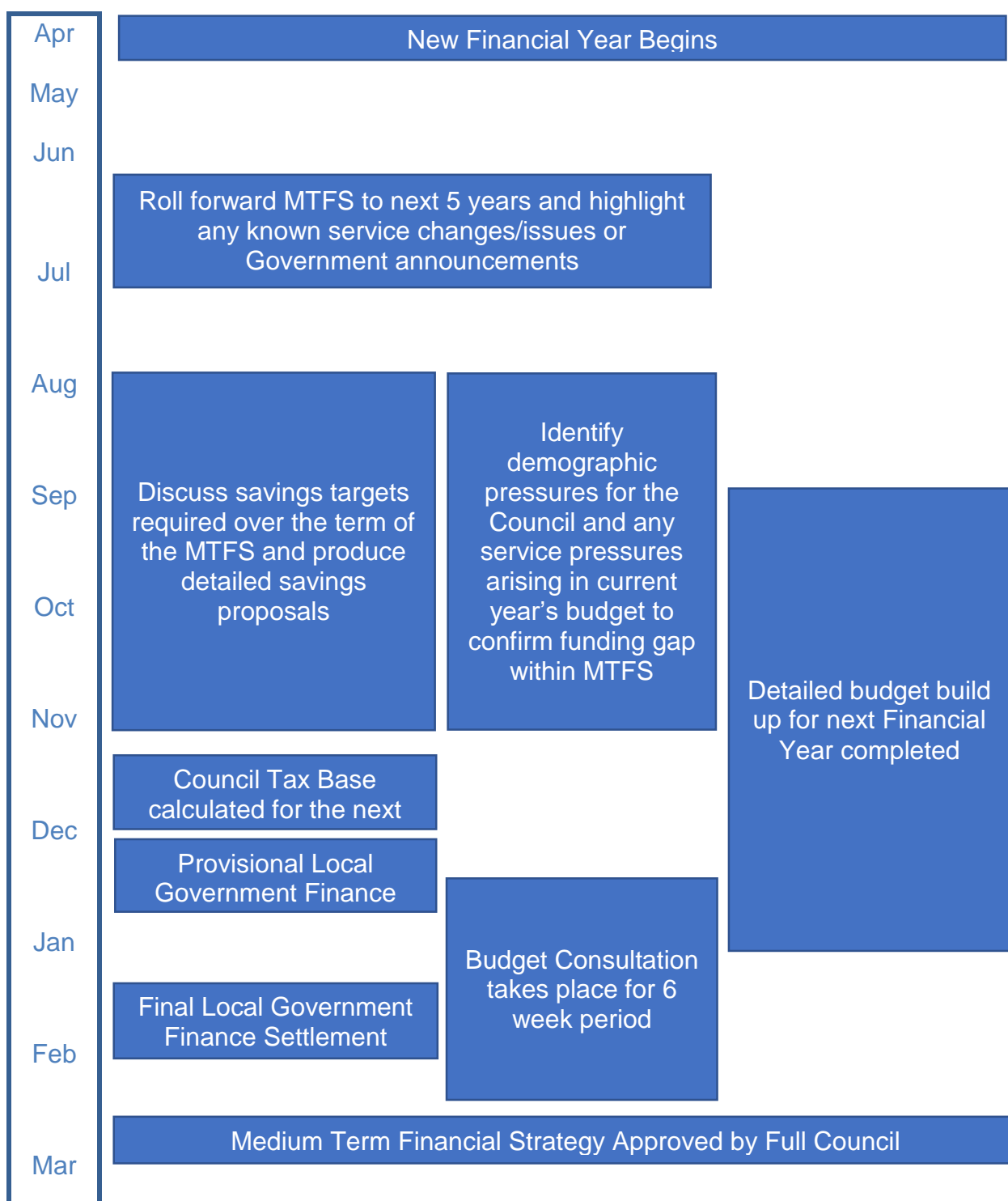
In previous years the Government have provided multi year funding settlements which have given the Council the ability to predict with some accuracy, the level of grant income that it will receive from the Government. The last four year multi settlement ran from 2016/17 to 2019/20 and the Government announced a one year settlement for 2020/21 with the intention of implementing the Fair Funding Review for 2021/22. Since the COVID-19 pandemic has hit the UK in the spring of 2020 and is anticipated to continue for the majority of the 2020/21 financial year, the Government has announced that the Fair Funding Review will now be delayed a further year until 2022/23. The Council will therefore be planning for a one year settlement for 2021/22 now.

During December and January, the Council will consult with the general public regarding the budget proposals for the next financial year. Feedback from this consultation will then 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 COVID-19 pandemic has not only had a significant impact on the lives of UK residents, but also on the UK economy. The UK economy is in recession and the Government has had to provide unprecedented financial support to keep the economy going through lockdown.

There have been a number of financial support packages provided by the Government including:

- £6.6bn to support health services
- £3.2bn for local government
- £0.9bn for food packages for clinically vulnerable people
- £1.3bn to NHS to support discharge from hospitals into care
- £600m for social care providers for infection control
- £0.5bn Hardship fund for Council Tax Support claimants
- Business Rate relief to all retail, hospitality and leisure businesses
- Small Business Grant Funding
- Retail, hospitality and leisure grant funding for any business with a rateable value of less than £51k
- £3.2m Support for rough sleepers
- Furlough scheme for employers
- Local Authority Discretionary Grants Fund
- Self Employment Income Support Scheme
- Coronavirus Business Interruption Loan Scheme

The level of financial investment required cannot be quantified nationally at this stage given the status of the pandemic, however the level of borrowing that the Government has had to undertake to support the public and the economy is significant and is likely to impact on public finances in this country for many years in the future.

2.3 Local Context

As outlined in Section 2.2 a number of national grant schemes have been passed to Local Authorities because the Local Authority will be incurring the spend directly, or because we can passport funding to the relevant organisation that is intended to receive the support.

Shropshire Council has received the following allocations of funding from the Government:

- £17.918m to fund the impact of COVID-19 on the Council
- £4.602m to passport to social care providers for infection control
- £1.54m from the Hardship Fund for Council Tax Support Claimants
- £43.9m estimated for Business Rate relief to all retail, hospitality and leisure businesses
- £57m estimated for Small Business Grant Funding
- £34m estimated for Retail, Hospitality and Leisure Grant Funding
- £12k for support to rough sleepers

MEDIUM TERM FINANCIAL STRATEGY INTRODUCTION

- £4.5m for the Local Authority Discretionary Grants Fund

The Government has also provided two additional sums of £0.229m for maintaining essential Bus Services and £0.288m for reopening high streets safely following the lockdown.

In addition to the Central Government funding received, Shropshire Council has secured an additional £0.737m from the Marches Investment Fund to support local businesses affected by COVID-19 that have not been eligible to obtain the Government funding provided for businesses.

Where the funding is generally being passported to business or other organisations, then the Local Authority is able to manage the spend to match the eligibility criteria that has been determined for these specific support packages. The general funding to Councils to fund the impact of COVID-19, however, is not sufficient to meet the cost pressures arising from the pandemic. This is the case for Shropshire Council but also nationally this is being raised as a concern for all local authorities.

IMPACT ON 2020/21 BUDGET

3.1 2020/21 Approved Financial Strategy

On 27th February 2020, Full Council approved the Financial Strategy for 2020/21 – 2024/25 which included the revenue budget for 2020/21.

A summary of the Financial Strategy for 2020/21 is detailed in Figure 2 below:

Figure 2: 2020/21 Approved Financial Strategy

	2020/21 £
Resources:	
Council Tax	-163,933,777
Business Rates	-51,720,281
RSG	-6,218,750
Collection Fund Surplus/(Deficit)	-3,648,763
Government Grants in Core Funding (IBCF, NHB, RSDG, SCG) ¹	-32,411,060
Local Income (F&C ² , Other Grants, Specific Government Grants, Internal Recharges)	-317,529,850
TOTAL FUNDING	-575,462,481
Expenditure:	
Gross Budget Requirement from 2019/20	593,079,737
Inflationary Growth (Pay, Prices, Pensions)	4,466,890
Demography & Demand	21,563,167
Service Specific Pressures	1,971,738
Local Generated Pressures (incl. change to specific grants and income changes)	576,055
Previous saving plans removed as unachievable	2,594,550
Savings to be achieved in 2020/21	-18,725,200
TOTAL EXPENDITURE	605,526,937
FUNDING GAP FOR 2020/21	30,064,456
Funded by:	
One off Core Government Grants	-27,411,061
One off use of Cost of Investment Budget	-2,750,000
Financial Strategy Reserve	96,605
BALANCED BUDGET FOR 2020/21	0

¹ IBCF - Improved Better Care Fund, NHB - New Homes Bonus, RSDG - Rural Services Delivery Grant, SCG - Social Care Grant

² F&C - Fees and Charges

Since the approval of this budget, the United Kingdom has suffered the COVID-19 pandemic, which has resulted in a lockdown of the country for a number of months during the spring and into the summer of 2020. It is anticipated that the impact of the COVID-19 pandemic will be felt for the remainder of the 2020/21 financial year to some degree. For the Council the impact has resulted in significant additional costs having

IMPACT ON 2020/21 BUDGET

to be incurred to support local communities and service users through the lockdown and COVID-19 pandemic. There has also been a number of council functions that have had to be closed or stopped in line with the lockdown restrictions, and the financial impact on revenue streams to the Council that the slowdown of the economy will have on the county in particular.

As the impact of this is considered to be so significant, it is necessary to consider a revision to the 2020-21 Budget before moving forward to planning the potential impact on future years of the Financial Strategy. The financial implications of the four areas identified in sections 3.2 to 3.5 is almost £36m.

3.2 Additional Costs of COVID-19

The COVID-19 pandemic has resulted in the Council incurring additional one off costs in supporting the communities of Shropshire. The Council established 10 workstreams surrounding the response to the COVID-19 pandemic and costs have been captured against each of these workstreams to identify where cost pressure have arisen. The difficulty in projecting the full year costs for each workstream is due to the unknown timeframe that the COVID-19 response and lockdown requirements will be in place. The Council produces a monthly return to Government on the anticipated costs and has taken part in benchmarking workshops with other local authorities to ensure that assumptions used are reasonably consistent across the country.

The associated workstreams and anticipated costs that will be incurred over the course of 2020/21 is projected as follows:

COVID-19 Workstream	2020/21 Cost Projection £000	Type of Costs included
Adult Social Care	3,849	Costs of supporting the care market providers and additional staffing costs to cover those staff self-isolating.
Business Continuity	3	Staff overtime during immediate COVID-19 response
Business & Economy	14	Additional vehicles required for Civil Enforcement officers to undertaken social distancing.
Children's Services	5,011	Additional Home to School transport costs, additional social care placements as a result of pandemic, additional support costs for additional care needs during lockdown
Communications	310	Additional IT kit to facilitate mobile working. Delays to implementing WAN replacement. Staff overtime
Emergency Expenditure	1,118	Claims for compensation from leisure service providers due to closing facilities.

IMPACT ON 2020/21 BUDGET

		Increase in bad debt write offs.
Excess Deaths	15	Temporary mortuary secured during peak of pandemic.
Homelessness	559	Costs of using B&B's for homeless.
Public Health	340	PPE costs
Vulnerable Communities	342	Support to vulnerable communities, including food packages and support for food banks. Small grants projects to support local community groups.
TOTAL	11,561	

3.3 Loss of Income from COVID-19

Additional costs are only one element of the financial pressure arising from COVID-19. In addition, it has been necessary to close a number of Council income earning facilities due to the lockdown restrictions, and there have also been knock on effects to some services income projections due to a general slowdown in the economy resulting from COVID-19.

The main income shortfalls that are anticipated in 2020/21 as a result of COVID-19 are:

Source of Income	£'000
Parking Income	3,919
Shire Services	3,629
Theatre Severn	2,097
Planning Services	1,048
Streetworks income	1,003
Property Rental Income Incl. Shopping centre	578
Public Transport – P&R	507
Traded Income with Schools	482
Adult Social Care Income	459
Leisure Centres	406
Old Market hall	188
Registrars	182
Outdoor Partnerships	143
Museums	138
Other	592
TOTAL	15,371

In the main the assumptions used are that facilities will remain closed until the end of September, however this does differ depending on the individual council setting.

3.4 Impact on Savings Due to COVID-19

IMPACT ON 2020/21 BUDGET

The Council agreed new savings of £18.725m to be delivered over the course of 2020/21. As a result of the pandemic and the prioritisation of services towards supporting the public of Shropshire through the effects of the lockdown, some of the proposals have not been able to be progressed or developed at the speed that was originally anticipated, and so it is considered that there is an increased risk of non-delivery relating to the savings proposals in 2020/21.

	Saving Target	Anticipated Non Delivery due to COVID-19	Percentage Impact
	£000	£000	%
Adult Services	7,097	1,920	27
Children's Services	2,446	1,050	43
Corporate Budgets	613	0	0
Finance Governance & Assurance	504	0	0
Legal & Democratic Services	400	0	0
Place	5,035	496	10
Strategic Management Board	0	0	0
Workforce & Transformation	2,630	132	5
TOTAL	18,725	3,598	19

3.5 Impact on Council Tax and Business Rates from COVID-19

In response to the pandemic, the Council allowed Council taxpayers to apply to defer the first two payments of Council tax due in April and May, and instead pay their Council Tax in the months June to March. The Council has had 7,134 households that have taken up this offer, which has had a short term cash impact but would not impact on the income collected overall for the year.

It should be noted however that the general slowdown in the economy and increase in unemployment is anticipated to have an effect on the level of Council tax that will be collected in 2020/21. The Council had assumed a collection rate of 98.3% for 2020/21 and our assumptions based on the first 2 months data are that there will be a 2% reduction in the collection rate as at the end of 2020/21. This would result in a loss of £4.224m for 2020/21 in the collection fund.

Income from Business Rates have similarly reduced, and whilst the Government has provided support to a number of businesses in the shape of Business Rate Reliefs and Business Grants, it is still anticipated that the impact of COVID-19 will result in a reduction in Business Rates income being collected in 2020/21. A 2% reduction has also been assumed in the collection rate.

	£'000
Council Tax Reduction	4,224
Business Rate Reduction	956
TOTAL	5,180

It is general practice that a reduction in the collection rate for the financial year is absorbed within the collection fund for the year, and then this would result in a collection fund deficit being estimated for the year. This would then bear out financially for the main preceptors in the following financial year when the amount of precept and collection fund deficit is determined in February. Therefore it would be reasonable to assume that the loss identified above would be realised in 2021/22.

However, as the pandemic is considered as an exceptional event it is anticipated that the Council would be able to recognise the impact on the Collection Fund in the current financial year. It is anticipated that the general slowdown in the economy may have a longer term benefit on the collection rates within the Collection Fund and therefore impact future years financial strategies, and so by dealing with the immediate impact in 2020/21 this may help to spread the overall impact on the Council's finances.

3.6 Government Funding

In recognising the cost pressures that local authorities would face during the COVID-19 pandemic the Government announced funding of £1.6billion on 19 March 2020. Shropshire Council received £8.972m in relation to this funding.

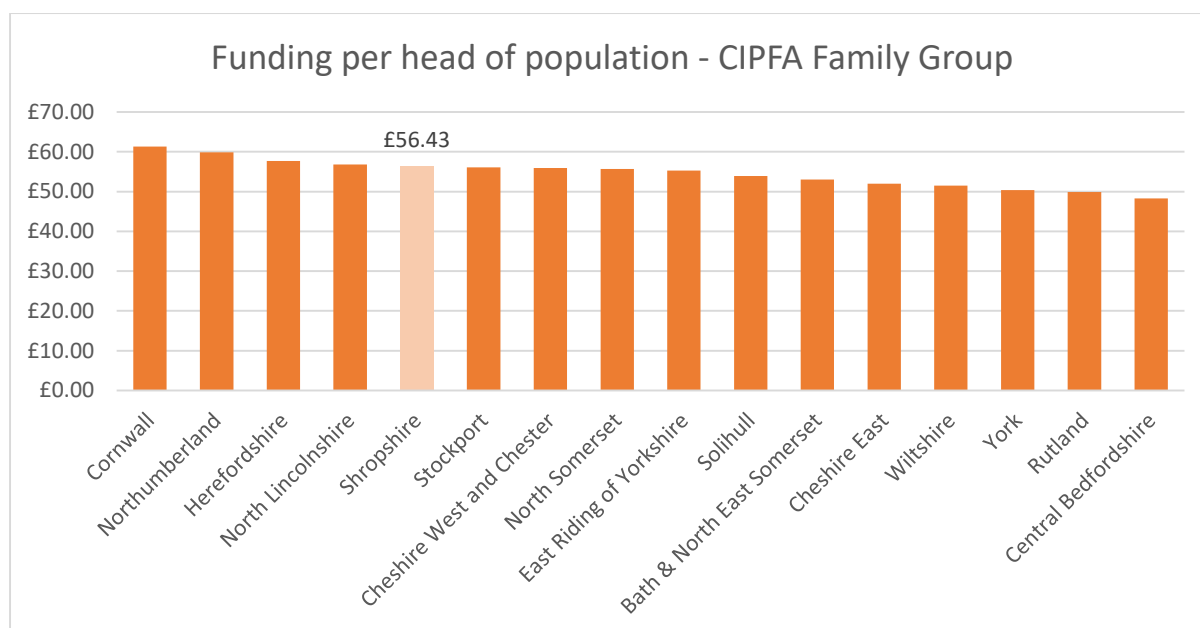
During the early part of April, local authorities produced the first estimate for Government of the financial impact of Coronavirus for 2020/21 which identified that the initial funding provided would not be sufficient to meet the financial pressures experienced.

In response to this the Government announced a further £1.59billion in additional funding on 18 April 2020. Shropshire Council received a further £8.946m from this allocation taking the total Government funding to £17.918m.

A comparison of funding received across the CIPFA Family Group shows that Shropshire Council received the 5th highest level of funding per head of population at £56.43.

Figure 3: Comparison of COVID-19 Funding by Family Group

IMPACT ON 2020/21 BUDGET



3.7 Other Changes Affecting 2020/21 Budget

Whilst there are always some changes that will impact on the budget once it has been agreed, there are some specific changes that are predicted to impact on the 2020/21 budget since the outturn position for 2019/20 has been established and these pressures are likely to be carried forward into 2020/21.

The outturn position for 2019/20 showed the following ongoing monitoring pressures:

Service Area	£'000	Nature of Ongoing Monitoring Pressure
Adult Services	429	Housing – temporary accommodation
Children's Services	682	Staffing/agency pressures related to demography
Finance, Governance & Assurance	573	Housing Benefits subsidy income shortfall
Place	958	Reduced rental income and increased contract costs within asset base, reduced income in planning
Workforce & Transformation	512	Single front door saving not achieved
TOTAL	3,154	

Whilst some of these have already been addressed within the budget strategy for 2020/21 such as the pressures in Children's Services and the single front door saving, there are some that remain a pressure for 2020/21. The Council will need to take appropriate management action to manage these pressures down, or identify compensatory savings that will offset these pressures in 2020/21.

The Council also included pay inflation of 2% for 2020/21 and future years. It is looking increasingly likely that this level of inflation will be insufficient as the National Joint Council looks to consult unions on a figure of 2.75%. This results in an additional financial pressure of £0.711m in 2020/21.

IMPACT ON 2020/21 BUDGET

In addition to the COVID-19 impact on the savings proposals for 2020/21, the delivery of the £18.725m saving proposals has been RAG rated. It should be noted that the red savings of £8.560m includes the £3.598m identified in section 3.4 as being delayed due to COVID-19. It is assumed that management will take further steps during the course of 2020/21 to fully deliver these savings plans.

	Green £	Amber £	Red £	Total £
Adult Services	1,122,000	3,065,010	2,910,170	7,097,180
Children's Services	240,462	68,960	2,137,068	2,446,490
Corporate Budgets	399,820	50,000	163,000	612,820
Finance, Governance and Assurance	70,000	213,620	220,000	503,620
Legal and Democratic Services	265,310	0	134,690	400,000
Place	2,764,460	1,001,610	1,269,390	5,035,460
Strategic Management Board	0	0	0	0
Workforce and Transformation	483,630	420,170	1,725,830	2,629,630
TOTAL	5,345,682	4,819,370	8,560,148	18,725,200

3.8 Addressing the Impact on 2020/21 Budget

The full impact on the 2020/21 budget as a result of all the items listed in sections 3.2 -3.7 are an additional financial pressures that more than outstrips the funding received by the Government. The impact on the 2020/21 budget is demonstrated in Figure 4 below:

Figure 4: Impact of COVID-19 on the 2020/21 Budget

IMPACT ON 2020/21 BUDGET

	2020/21 £	COVID-19 Impact and Other Changes £	Ref to MTFS	Revised 2020/21 £
Resources:				
Council Tax	-163,933,777	0		-163,933,777
Business Rates	-51,720,281	0		-51,720,281
RSG	-6,218,750	0		-6,218,750
Collection Fund Surplus/(Deficit)	-3,648,763	5,180,000	3.5	1,531,237
Government Grants in Core Funding (IBCF, NHB, RSDG, SCG) ¹	-32,411,060	0		-32,411,060
Local Income (Specific Government Grants)	-200,462,900	-17,918,000	3.6	-218,380,900
Local Income (F&C ² , Other Grants, Internal Recharges)	-117,066,950	15,371,000	3.3	-101,695,950
TOTAL FUNDING	-575,462,481	2,633,000		-572,829,481
Expenditure:				
Gross Budget Requirement from 2019/20	593,079,737	0		593,079,737
Inflationary Growth (Pay, Prices, Pensions)	4,466,890	711,000	3.7	5,177,890
Demography & Demand	21,563,167	0		21,563,167
Service Specific Pressures	1,971,738	11,561,000	3.2	13,532,738
Local Generated Pressures (incl. change to specific grants and income changes)	576,055	0		576,055
Previous saving plans removed as unachievable	2,594,550	0		2,594,550
Savings to be achieved in 2020/21	-18,725,200	3,598,000	3.4	-15,127,200
TOTAL EXPENDITURE	605,526,937	15,870,000		621,396,937
FUNDING GAP FOR 2020/21	30,064,456	18,503,000		48,567,456
Funded by:				
One off Core Government Grants	-27,411,061			-27,411,061
One off use of Cost of Investment Budget	-2,750,000			-2,750,000
Financial Strategy Reserve	96,605			96,605
BUDGET GAP FOR 2020/21	0			18,503,000

¹ IBCF - Improved Better Care Fund, NHB - New Homes Bonus, RSDG - Rural Services Delivery Grant, SCG - Social Care Grant

² F&C - Fees and Charges

In addressing the budget gap there are a number of options that the Council can pursue:

1. Lobby Government for additional funding
2. Lobby Government for additional freedoms to capitalise spend
3. Spending Freeze in 2020/21
4. Use of Financial Strategy Reserve in 2020/21

1. Lobby Government for additional funding

The Council has been making regular representations to government that the funding that is received is insufficient to meet the costs of delivering services. A meeting was held between the Council and Luke Hall MP, the Parliamentary Under Secretary of State at MHCLG, where assurances were provided that the current inequitable funding methodology would be addressed under the Fair Funding Review in April 2021. As

highlighted earlier in the Financial Strategy, it has now been announced that the Fair Funding Review will be delayed for another year, therefore the Council is continuing to lobby the Government for immediate funding support. As a result of this lobbying, the Leader of the Council has been requested to outline the Funding position of the Council to Robert Jenrick MP, Secretary of State for MHCLG, and this outlines the financial position for the Council and requests both additional funding for COVID-19 and the removal of the structural funding gap as a result of the inequalities in the current funding mechanism.

2. Lobby Government for Income Guarantee

The County Council's Network (CCN) have called on the Government to set out an initial £5bn guarantee to compensate councils for their lost income in addition to providing emergency funding for additional costs. It is intended that this would cover lost income from council tax, business rates, fees and charges and other non-commercial income. For Shropshire Council such a guarantee would provide funds of £19.973m, however it is currently projected that only £17.792m would be required to offset the financial pressure relating to COVID-19.

3. Lobby Government for additional freedoms to capitalise spend

Previously when local government has experienced significant one off spend, the Government has increased the flexibilities in relation to capitalise spend. This has been suggested as a potential way of funding the shortfall in funding across local government. If this is agreed by the Government this would allow the Council to borrow the £17.792m shortfall relating specifically to the COVID-19 crisis in 2020/21, over a 25 year period and then make annual repayments from 2021/22 onwards.

This would have the effect of increasing the costs of borrowing revenue budget by just under £1m from 2021/22, which will add an ongoing budget pressure in future years but will address the immediate shortfall.

4. Spending Freeze

The Council has been required to implement pending freezes now in the majority of the last five years in order to manage budgetary pressures that arise during the year. Whilst this is a short term solution only, the implementation of spending freezes has generated up to £3m worth of one of savings in the year. In previous years the introduction of spending freezes has been done in the second half of the year, however given the level of financial pressures identified for 2020/21, it is an option for Cabinet to consider implementing a spending freeze earlier.

5. Use of Financial Strategy Reserve in 2020/21

IMPACT ON 2020/21 BUDGET

Should the first four options not generate the level of funding required to close the budget gap in 2020/21, it is possible for the Council to utilise the Financial Strategy Reserve in 2020/21. This reserve has been earmarked for use in 2021/22 in order to temporarily close the structural funding gap, and so by utilising this in 2020/21 instead, this means that the Council will have an unsustainable budget for 2021/22 and if significant additional savings cannot be identified, a Section 114 notice may need to be considered by the Chief Financial Officer. This would mean that no new agreements for spending can be entered into until an emergency budget is agreed by Full Council.

An illustration of the five options to manage the pressures in year are mapped out below in Figure 5:

Figure 5: Options for Funding Shortfall in 2020/21 Budget

	Option 1 £	Option 2 £	Option 3 £	Option 4 £	Option 5 £
BUDGET GAP FOR 2020/21	18,503,000	18,503,000	18,503,000	18,503,000	18,503,000
Additional Funding Provided by Government FOR COVID-19	-17,792,000				
Income Guarantee Provided by the Government		-17,792,000			
Capitalisation of COVID-19 costs			-17,792,000		
Spending Freeze (based on 9 months of year)				-4,500,000	
Use of Financial Strategy Reserve	-711,000	-711,000	-711,000	-14,003,000	-18,503,000
REVISED BUDGET GAP FOR 2020/21	0	0	0	0	0
Financial Strategy Reserve Balance - 01/04/20	20,466,600	20,466,600	20,466,600	20,466,600	20,466,600
Use of Reserve in 2020/21	-711,000	0	-711,000	-14,003,000	-18,503,000
Financial Strategy Reserve Balance - 31/03/21	19,755,600	20,466,600	19,755,600	6,463,600	1,963,600

4.1 Core Government Funding

As outlined earlier in the MTFS, the Government has now indicated that the Fair Funding Review planned for implementation in 2021/22, will now be delayed a further year and instead implemented in 2022/23. In the MTFS that was agreed in February 2020, the Council had assumed that Revenue Support Grant and New Homes Bonus would be phased out over the next 2 years and that Core Funding Grants such as Improved Better Care Fund, Rural Services Delivery Grant and Social Care Grant would be rolled into the Fair Funding Review. However with no detail regarding how the Fair Funding Review would impact on the Council, no assumptions had been built in currently for any additional funding for the Council from 2021/22 onwards.

Now that the Fair Funding Review has been delayed a year, it can now be assumed that the Core Government Grants that were previously anticipated to be rolled into the Fair Funding Review, will now be available for 2021/22 and they will be paid at the same cash limited levels as in 2020/21. This therefore impacts the projections for future years resources that was previously agreed in February, and so these have now been updated accordingly.

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Revenue Support Grant - as at Feb 2020	4,179,066	2,139,383	0	0	0
Grants included in Core Funding - as at Feb 2020:					
Improved Better Care Fund	0	0	0	0	0
New Homes Bonus	4,592,570	2,227,140	0	0	0
Rural Services Delivery Grant	0	0	0	0	0
Social Care Grant	0	0	0	0	0
Revised Revenue Support Grant	6,320,073	4,213,382	2,106,691	0	0
Revised Grants included in Core Funding:					
Improved Better Care Fund	9,547,340	0	0	0	0
New Homes Bonus	4,592,570	2,227,140	0	0	0
Rural Services Delivery Grant	6,614,130	0	0	0	0
Social Care Grant	7,882,890	0	0	0	0
Difference	26,185,367	2,073,999	2,106,691	0	0

4.2 Council Tax

The pandemic is predicted to have an impact on collection rates for Council tax in 2020/21, however this it is also considered that this will have a longer term impact, whilst the economy takes time to rebuild again, and unemployment levels are reduced, thereby reducing the demand for Council Tax Support and improving collection rates. It is also likely that the lockdown during 2020/21 will have stalled housebuilding throughout the county and so growth within the taxbase may be below the levels that have been experienced in the last few years. Therefore the projections for future year's

REVENUE EXPENDITURE 2021/22 – 2025/26

council tax collection have been revised to allow for an initial reduction in taxbase and then a gradual increase back to previous levels of growth.

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Assumptions
Council Tax - as per Feb 20 MTFS	173,287,521	183,173,997	193,625,808	204,674,538	0	Increase in Council tax 1.99%; Increase in Social Care Precept 2%, Increase in taxbase 1.65% across all years
Revised Council Tax	170,474,685	179,048,389	188,985,514	199,769,464	211,166,963	Increase in Council tax 1.99%; Increase in Social Care Precept 2%, Increase in taxbase 0% for 2021/22, 1% for 2022/23, 1.5% for 2023/24, 1.65% for 2024/25 - 2025/26
Difference	-2,812,836	-4,125,608	-4,640,294	-4,905,075	211,166,963	

4.3 Business Rates

As per the reduction in Council Tax projections for future years, a similar reduction is anticipated for Business Rate income whilst the economy rebuilds after the effects of the pandemic. Therefore this is anticipated to impact on the increase in rateable value that was anticipated and the growth in the multiplier.

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Assumptions
Business Rates - As per Feb 2020	41,361,163	42,003,606	42,656,027	43,318,581	0	1.3% growth in multiplier and 0.25% growth in rateable value for all years
Revised Business Rates	40,728,547	40,962,889	41,434,577	42,078,159	42,731,738	2021/21 0% growth in multiplier and rateable value; 2022/23 0.5% increase in multiplier 0.075% increase in rateable value; 2023/24 1% growth in multiplier 0.15% growth in rateable value; 2024/25 and 2025/25 1.3% growth in multiplier 0.25% growth in rateable value
Difference	-632,616	-1,040,717	-1,221,450	-1,240,422	42,731,738	

4.4 Total Funding for 2021/22 – 2025/26

The impact of the pandemic has had an impact on the future revenue resources projected for the Council over the next five years within the MTFS. The revised funding projections are shown in Figure 6 below:

REVENUE EXPENDITURE 2021/22 – 2025/26

Figure 6: Total Funding for 2021/22 – 2025/26

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Council Tax	170,474,685	179,048,389	188,985,514	199,769,464	211,166,963
Business Rates:					
Business Rates Collected	40,728,547	40,962,889	41,434,577	42,078,159	42,731,738
Business Rates - Energy Renewable Schemes	900,000	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	6,320,073	4,213,382	2,106,691	0	0
Collection Fund:					
Council Tax	500,000	500,000	500,000		
Business Rates	-500,000	-500,000	-500,000		
NET BUDGET	228,454,566	235,155,921	243,458,041	252,778,883	264,829,961
Grants included in Core Funding:					
Improved Better Care Fund	9,547,340	0	0	0	0
New Homes Bonus	4,592,570	2,227,140	0	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	257,091,496	237,383,061	243,458,041	252,778,883	264,829,961
Local Income					
Fees and charges (including income savings deliverable from prior years)	86,384,981	88,703,677	91,202,251	93,944,845	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)	183,913,000	183,858,550	183,811,430	183,771,122	183,771,122
Internal Recharges	5,963,040	5,963,040	5,963,040	5,963,040	5,963,040
TOTAL FUNDING	560,352,547	542,908,358	551,434,792	563,457,920	575,508,998

5.1 Savings Plans for 2021/22

The MTFS agreed in February 2020, assumed that savings plans of £3.850m that had previously been identified for delivery in 2021/22 would be delivered. Latest projections on savings delivery plans for 2021/22 shows the following RAG ratings:

	Green	Amber	Red	TOTAL
Adult Services			1,141,290	1,141,290
Children's Services		47,440	14,550	61,990
Finance, Governance & Assurance	21,920			21,920
Place		850,000	1,735,290	2,585,290
Workforce & Transformation			39,510	39,510
TOTAL	21,920	897,440	2,930,640	3,850,000

Further work is required during the course of 2020/21 to ensure that plans are in place for all of these savings to be fully delivered from the 1 April 2021.

5.2 Total Expenditure

There are no projected changes to expenditure during the period 2021/22 – 2025/26 apart from the compensatory changes to the specific grant changes resulting from the Core Grants being rolled forward, therefore the total expenditure is detailed in Figure 7 below. However it should be noted that if the Government does allow capitalisation of COVID-19 related costs, then an additional £1m would need to be found for borrowing costs from 2021/22 onwards. It is intended that the cost of investment budget would be cut accordingly by a compensatory £1m to offset this, thus having no impact on the bottom line of total expenditure each year.

Figure 7: Total Expenditure for 2021/22 – 2025/26

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Original Gross Budget Requirement	605,526,937	593,662,590	582,538,686	600,169,156	621,475,058
Inflationary Growth :					
Pay	2,743,338	2,819,197	2,897,208	2,977,435	3,059,884
Prices	1,901,746	1,988,548	2,080,762	2,115,831	2,151,491
Pensions	0	0	0	0	0
Demography & Demand	11,966,550	13,846,297	14,829,238	16,152,790	17,594,472
Service Specific Pressures	144,179	95,225	97,522	102,254	107,216
Local Generated Pressures:					
Elections	700,000	-700,000			700,000
Specific Grants Changes between years	-20,324,030	-26,464,240	-2,274,260	-42,408	0
One off investment in IT infrastructure	-1,101,130				
Estimated Cost of Investment - <i>Approved</i>	1,265,000	1,760,000			
Invest to Save Fund for delivery of future savings	-5,250,000				
Energy Renewable Schemes	-60,000				
Adjustment to Gross budget offset by Income changes					
Savings					
<i>Savings from prior years- 2018/19 - Approved</i>	<i>-3,850,000</i>	<i>-4,468,930</i>			
<i>Remove 2019/20 Red Savings Unachievable</i>					
<i>2019/20 Red savings Achievable in 2020/21</i>					
<i>New Savings</i>					
TOTAL EXPENDITURE	593,662,590	582,538,686	600,169,156	621,475,058	645,088,121

6.1 Funding Gap and Temporary Solutions

The funding gap for 2021/22, which was previously anticipated to be £37m in February 2020, has now reduced to £33.3m mainly due to the carry forward of core government grants of which the Revenue Support Grant had not been assumed to reduce significantly in 2021/22. As a result of this, these one off grants can be used to close the funding gap in 2021/22 and the Council will only need to drawdown part of the Financial Strategy Reserve in 2021/22, and then use the balance of this in 2022/23 to reduce the potential funding gap arising in the year of the Fair Funding Review.

Figure 8: Funding Gap for 2021/22 – 2025/26

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Resources	560,352,547	542,908,358	551,434,792	563,457,920	575,508,998
Expenditure	593,662,590	582,538,686	600,169,156	621,475,058	645,088,121
Gap in year	33,310,043	39,630,329	48,734,364	58,017,138	69,579,122
One Off Funding to be used:					
One off Grants:					
Rural Services Delivery grant	9,547,340	0			
New Homes Bonus - One Off	-407,434	-2,772,861	-5,000,000	-5,000,000	-5,000,000
Improved Better Care Funding	6,614,130	0			
Social Care Funding - One Off	7,882,890				
Use of Reserves:					
Financial Strategy Reserve	9,673,117	10,794,000			
TOTAL ONE OFF FUNDING	33,310,043	8,021,139	-5,000,000	-5,000,000	-5,000,000
Remaining Gap to be Funded	0	31,609,190	53,734,364	63,017,138	74,579,122

6.2 Plans for a Sustainable Budget

The 2022/23 to 2025/26 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 £39.6m in 2022/23 growing to £69.6m in 2025/26.

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. Depending on the direction that the Government decides to take over the cost pressures for COVID-19 in 2020/21, will dictate how much of the Financial Strategy Reserve is available to help relieve the pressure on the 2022/23 financial year. If the Government agree to fully fund the COVID-19 costs, or allow local authorities to capitalise the costs of COVID-19, then the full balance will be

available, which is what has been assumed in section 6.1. This would then be fully released in 2022/23. 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 COVID-19 pandemic and lockdown has forced the Council to operate in a different way, and whilst this has been challenging, there have been some real benefits arising from working in a different way. It is important that the Council capitalises on the opportunity that this situation has presented and the organisation does not shift back to how things were done prior to the pandemic. The investment that the Council has undertaken in the Digital Transformation Programme has proven to be essential during this period, and it is important that the Council now builds on this to truly transform the long term working practices of the Council which will help towards delivering a more sustainable budget.

The main focus of these transformation plans will include:

- Home working for staff on a more permanent (albeit not full-time) basis;
- Utilising a single, more condensed Council site in Shrewsbury Town Centre ;
- Automating all manual processes (look to become cashless, paperless, digital by default);
- Deliver services remotely and therefore reduce travel across the county to provide an environmental and financial benefit;
- Review which services have not been delivered during COVID-19 and consider if they could be stopped permanently;
- How a local delivery hub model would operate both for customers, partners and staff.

It is essential that these transformation plans complement activities already planned and outlined in the Economic Growth Strategy, the Asset Management Strategy, the Commercial Strategy and the Workforce Digital Strategy that have been approved by the Council, in order that the operating model in use at the Council supports the key activities required to deliver the Council's Corporate Plan and deliver a more sustainable budget.

IMPACT ON 2020/21 BUDGET

7.1 General Fund Balance

During 2019/20 the General Balance held was reduced in order to fund the overspend within the revenue budget, to temporarily fund an overspend that occurred within the trading unit of Shire Services, and in order to fund the Bellwin threshold due to flooding experienced in February 2020. This has resulted in the General Fund being even further away from the risk assessed level that has been determined within the MTFS in February 2020. The risk assessed level quantifies the level of General Fund that may need to be held to protect against unforeseen expenditure or financial pressures arising each year, and the reasons for drawing down just over £2m of General Fund to support the revenue budget demonstrates the need to hold a sufficient level of General Fund Balance for such emergency situations.

Figure 9 below shows the projected General Fund Balance over the life of the Financial Strategy, compared to the risk assessed level and shows the shortfall against this risk assessed level.

Figure 9: General Fund Projection and Comparison with Risk Assessed Level

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Opening General Fund Balance	13,510,175	13,592,082	13,592,082	13,592,082	13,592,082	13,592,082
Repayment of Shire Services overspend	81,907	0	0	0	0	0
Closing General Fund Projected	13,592,082	13,592,082	13,592,082	13,592,082	13,592,082	13,592,082
Risk Assessed Level of General Fund Balance	19,242,000	19,430,000	26,039,000	27,952,000	29,925,000	29,925,000
Shortfall in General Fund Balance	-5,649,918	-5,837,918	-12,446,918	-14,359,918	-16,332,918	-16,332,918

7.2 Earmarked Reserves

The level of earmarked reserves has reduced in 2019/20 by £3.7m as services have utilised balances that had been previously committed to specific projects. This leaves earmarked reserves at £68.0m as at 31st March 2020.

A projection of the level of earmarked reserves that will be held over the next 5 years of the financial strategy is demonstrated in the graph below. The level of reserves reduces by approximately £10m each year until 2023. This is in line with the planned reduction in the Financial Strategy Reserve as outlined in section 6.1. Overall there is anticipated to be a 59% reduction in earmarked reserves over the life of the MTFS.

Figure 10: Projected Earmarked Reserves 2020/21 – 2025/26

