



Committee and Date

Cabinet 5th January 2022

Item

Public

Financial Strategy 2022/23 - 2026/27 and Mid-Year Capital Strategy 2021/22 to 2026/27

Responsible Officer

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1. Synopsis

The draft Financial and Capital Strategies are the plans to manage Shropshire Council's finances over the next five years and set a legal budget for 2022/23. In short, we can set a balanced budget next year, but beyond we continue to battle with a £50m structural funding gap.

2. Executive Summary

- 2.1. This report outlines the updated financial strategy for 2022/23 – 2026/27, building on the strategy approved by Council in February 2021, and reflecting latest information on resources and expenditure pressures and the funding gap. The report also outlines an update to the Capital Strategy that was approved in February 2021 and details the priority schemes that the Council will start to develop business cases for in order to become potential future capital projects.
- 2.2. The updated Financial Strategy for 2022/23 – 2026/27 sets out the financial plans for Shropshire Council. The report however focusses primarily on the 2022/23 budget, and the actions required to reduce the existing funding gap in order to set a balanced budget for the Council.
- 2.3. The Government announced a three-year Spending Review for government departments yet, for the third year running, has only provided a single year Spending Round announcement for 2022/23. It has not stated whether the Fair Funding Review (the national review into Local Government Finance) will be implemented as previously advised or will be further delayed.
- 2.4. The Council is actively lobbying the government for additional funding, to address structural funding shortfalls and a funding formula that does not take account of growth in Social Care costs. A structural funding gap remains of at least £50m per annum. It is now essential that lobbying results in additional funding from the Government in the form of a sustainable funding solution.

- 2.5. The Capital Strategy has been updated to reflect latest delivery and projections on the current agreed capital programme, and a review has been undertaken of the future schemes that are considered a priority for the Council to work on. The updated list of capital priority schemes had indicated a significant level of borrowing would be required to fund the schemes, thereby generating an additional budgetary pressure on the Finance Strategy. This has therefore been revised into a smaller list of priority projects and the requirement for alternative sources of funding to be found for these schemes to progress into the approved capital programme.

3. Recommendations

- 3.1. It is recommended that members:

- A. Approve the savings proposals which will contribute towards delivery of a balanced budget in 2022/23 as outlined in Appendix 1 Annex A, enabling the Leader of the Council to consult on the budget plans before taking to Council on 24 February 2022.
- B. Note the funding gap for the years 2023/24 to 2026/27.
- C. Note and agree the prioritised capital schemes identified at Appendix 2 section 8 including the need to identify and confirm funding sources for these schemes.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The development and delivery of the Council's Financial Strategy is the key process in managing many of the Council's strategic risks. The opportunities and risks arising are assessed each time the document is refreshed for Cabinet consideration. The Council's Strategic Risks are reported separately, but the Financial Strategy makes specific reference to the Council's ability to deliver a balanced budget and the budget setting and challenge process is a key mechanism in ensuring that the Council can set a legal budget for the next financial year. The five-year Financial Strategy also considers the plans that the Council has to work towards setting a sustainable budget in the future.
- 4.2. The Financial Strategy and the detailed changes necessary to deliver the agreed budget for the next financial year will consider the requirements of the Human Rights Act, any necessary environmental appraisals and the need for Equality and Social Inclusion Impact Assessments (ESIIA) and any necessary service user consultation.
- 4.3. The development of the Council's Capital Strategy is a fundamental process in evaluating the financial risks arising from investment projects, both in

terms of the risks arising from the individual projects and the impact that they have on the Council's financial position and sustainability. The Strategy outlines the process for evaluating business cases for investment, which always considers the financial and non-financial risks arising from the project.

5. Financial Implications

- 5.1. This report sets out the financial implications for the Council over the 2022/23 to 2026/27 Financial Years. Details are contained within the Medium Term Financial Strategy attached at Appendix 1 and the Capital Strategy attached at Appendix 2.

6. Climate Change Appraisal

- 6.1 The Council's Financial Strategy supports strategies for Climate Change and Carbon Reduction in a number of ways. The 2022/23 revenue budget has an annual base budget provision of £0.500m (following the £1m initial investment in 2021/22) to support Climate Change initiatives in order to deliver the Council's Climate Change Strategy Framework. The future programme includes programmes to support a range of initiatives such as moving to LED street lighting, enabling agile and mobile working dramatically reducing travel and support for Park and Ride schemes to reduce car emissions within the town centres.
- 6.2. Schemes detailed in the Capital Strategy 2021/22 to 2026/27 and the development of future projects will take into consideration the Council's Climate Change Strategy Framework; promoting sustainable development, reducing Shropshire's overall carbon footprint and generating energy and cost savings wherever possible.

7. Background

- 7.1. Council approved the Financial Strategy 2021/22 – 2025/26 on 25 February 2021. This report updates Cabinet of the impact of the latest budgetary position for the Council as detailed in the existing quarterly revenue and capital monitoring reports and outlines the impact of national and local decisions that have been taken since February 2021 on the Council's financial strategy.
- 7.2. The Council's Medium Term Financial Strategy is attached at Appendix 1. This Strategy looks at financial planning and management over a five-year period and links the council's vision and priorities with the forecasted resources and budgets. It also helps the Council towards developing a sustainable budget over the medium term.

8. Additional Information

- 8.1. Since the Financial Strategy was signed off by Council on the 25 February 2021 work has begun to consider the detailed budget build up for 2022/23 and the impact that this may have on the five-year financial strategy.

- 8.2. The revenue resources over the five-year period have been updated to reflect the latest projection on the council taxbase and to reflect the best indications of likely levels of core government grants over the next 3 financial years. Further details are provided in Appendix 1, section 3.
- 8.3. Expenditure projections have been updated for the latest projections of demography, inflationary increases and service specific budgetary pressures including the need to address ongoing budget pressures that have been highlighted in the Quarter 2 financial monitoring report, considered by Cabinet on 1st December 2021. Further details on all amendments to projected expenditure over the 5 years are outlined in Appendix 1, section 4.
- 8.4. As a result of these updates, it has been necessary for the Council to identify new savings proposals to reduce the funding gap, particularly in 2022/23 in order to set a balanced budget. The Council has currently identified new savings of £4.771m across the Council, in addition to £4.469m that had previously been agreed in 2018/19.
- 8.5. It is necessary for the Council to carry out a consultation on the budget, particularly focussing on the savings that are being proposed for the next financial year. Following approval to move to consultation, this will take place following the January Cabinet for a period of 6 weeks. Feedback from the consultation will then be reported in the Financial Strategy report considered at Cabinet and Council in February 2022.
- 8.6. A balanced budget for 2022/23 was made possible through the use of £4.771m of new savings proposals across all areas of the Council; combined with £4.469m of savings carried forward from previous years and an allocation of over £13m from one-off sources including reserves.
- 8.7. The Capital Strategy has also been updated to reflect an extensive review that has been carried out of the prioritised projects. Due to pressures in the revenue budget, it is not possible to continue with schemes that would add a significant further financial pressure through additional borrowing costs, and so the list of projects has been revised to £268.394m. The financing for these schemes is detailed in Appendix 2, Annex B however there is still further work required to ensure that alternative funding sources are identified for £117.619m of these schemes to prevent additional borrowing and revenue growth being required. Options for funding will be considered as the schemes work to develop detailed business cases that can be agreed for inclusion in the capital programme.

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

Financial Strategy 2021/22 – 2025/26

Cabinet Member (Portfolio Holder)

Gwilym Butler – Portfolio Holder - Resources

Local Member

Appendices

Appendix 1 - Medium Term Financial Strategy – January 2022

Appendix 2 – Capital Strategy 2021/22 to 2026/27