



Committee and Date

Cabinet
16th February 2022

Item

Public

Capital & Financial Strategy 2022/23 - 2026/27 – Final

Responsible Officer James Walton

e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Synopsis

The 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. Despite carrying a £50m structural funding gap, a balanced budget can be set for next year using one off funding and reserves.

2. Executive Summary

- 2.1. This report outlines the financial strategy for 2022/23 – 2026/27, updating the position from the previous position as approved by Cabinet in January 2022 and reflecting latest information on resources and expenditure pressures. A structural Funding Gap, in the order of £50m annually, has been managed for the past two financial years through the careful application of available government funding (such as Covid-19 grant), unavoidable service reductions and use of reserves. A 'Financial Strategy' Reserve of £22m, put in place to smooth the transition to Fair Funding (delayed by Central Government 4 times since 2019/20) has now been depleted to help deliver a balanced budget in 2022/23.
- 2.2. The report also outlines an update to the Capital Strategy that was approved by Council in February 2021 and details the priority schemes for which the Council will develop business cases to become potential future capital projects.
- 2.3. The updated Financial Strategy for 2022/23 – 2026/27 sets out the financial plans for Shropshire Council. The report, out of necessity however, focusses primarily on the 2022/23 budget, and the actions required to reduce the existing funding gap to set a balanced budget for the Council.
- 2.4. 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.

- 2.5. 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.
- 2.6. 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. The updated list of capital priority schemes initially indicated significant levels of borrowing to fund the schemes, thereby generating an additional budgetary pressure on within the Medium Term Finance Strategy. This was revised into a smaller list of priority projects with a requirement to identify alternative sources of funding for many schemes to progress into the approved capital programme.

3. Recommendations

3.1 It is recommended that members:

- A. Agree and recommend to Council the 2022/23 budget of £555.960m outlined in the Budget Book at Appendix 3, including the savings proposals outlined in section 4.5 of the Medium Term Financial Strategy(MTFS) at Appendix 1.
- B. Note the changes required to the 2022/23 budget as a result of the Final Local Government Settlement and revised business rates and collection fund estimates.
- C. Note the revised funding gap for the years 2023/24 to 2026/27.
- D. Approve the recommended level of general balances to support the 2022/23 revenue budget of £18.712m, noting that the projected balance is presently significantly below this for 2022/23.
- E. Note the projected recommended level of general reserves for the following four years at £27.033m in 2023/24, £27.574m in 2024/25, £28.226m in 2025/26 and £30.760m in 2026/27.
- F. Agree the adoption of the Capital Strategy 2022/23 – 2026/27 attached as Appendix 2.
- G. Note the prioritised capital schemes identified at Appendix 2 section 8 including the need to identify and confirm funding sources for these schemes.

- H. Agree the revised Capital programme as set out in Appendix 2 section 6 and Annex B to the Capital Strategy.

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. The identified structural funding gap of £50m is an ongoing risk that has been managed, since 2020/21, through one off funding, service reductions and use of reserves and remains the basis for the Council's strategic risk identifying the inability to set a sustainable budget.
- 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, social inclusion and health impact assessments (ESHIA) 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 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 2022/23 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 Cabinet approved the Draft Financial Strategy 2022/23 – 2026/27 on 5 January 2022. This report updates Cabinet with changes that have been made since this date including the announcement of the Final Local Government Finance Settlement, the calculation of the Estimated Collection Fund, and the latest projections on Non Domestic Rates to be collected in 2022/23.
- 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.
- 7.3 The Council is required to prepare a Capital Strategy which demonstrates that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy demonstrates that the authority complies with the revised Prudential Code for Capital Finance in Local Authorities that CIPFA published in 2017.

8. Additional Information

- 8.1. Since the Draft Financial Strategy was signed off by Cabinet on the 5th January 2022, a number of key updates have amended both the resources and the projected expenditure for 2022/23 and future years.
- 8.2. The Resources projections have been updated for the following amendments:
 - Final Local Government Finance Settlement – this was announced on 7th February 2022 and resulted in some minor amendments to the core government grants to be received providing an additional £0.008m for 2022/23.

- Non Domestic Rates – The projected non domestic rates figure for 2022/23 has now been calculated which shows a reduction in resources. This has been offset however with the use of the Section 31 grant provided to recompense local authorities for the reliefs awarded to businesses.
 - Estimated Collection Fund – the calculation of the estimated collection fund surplus or deficit, particularly for Non Domestic Rates is again affected by the reliefs provided to businesses in response to the coronavirus pandemic. This has again been offset by the use of a Section 31 grant and so the net effect is that an additional £4.028m in resources have been made available to the position reported in January 2022.
 - Specific government Grants – these have been updated to reflect the latest Government notifications of grants receivable in 2022/23.
 - Local Income – Other Income budgets have been amended to reflect the latest projections following detailed budget setting discussions that have been carried out with budget managers.
- 8.3. Expenditure projections have been updated for the latest projections of demography, service specific budgetary pressures, expenditure budgets relating to specific government grants and other minor amendments.
- 8.4. A full breakdown of the amendments made to the Financial Strategy since January 2022 is detailed in Appendix 1, section 10.
- 8.5. The MTFS at Appendix 1 also considers the Council’s robustness of estimates and adequacy of reserves that the Council holds. This includes reviewing the General Fund Balance that the Council holds and any other earmarked reserves. The risk assessed level of General Fund Balance for 2022/23 is calculated as £18.712m, and it is anticipated that the level of General Fund Balance as at the end of the 2021/22 financial year will be significantly below this. Given the potential to decommit earmarked reserves in the short term under an emergency situation, it is considered acceptable, in this scenario, for the General Fund Balance to remain below the risk assessed level.
- 8.6. The Capital Strategy details the capital programme 2022/23 to 2024/25 including projects that have proceeded to approval stage, either via delegated powers or full Cabinet and Council recommendation approvals. The full Capital Programme is set out in Appendix 2, Annex B.
- 8.7. The Capital Strategy also includes a planned programme of capital schemes what are proposed but have yet to complete the full due diligence process. 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 £279.276m. The financing for these schemes is detailed in Appendix 2, Annex C however there is still further work required to ensure that alternative funding sources are identified for £126.473m 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)

Mid-Year Capital and the Financial Strategy 2022/23 – 2025/26

Cabinet Member (Portfolio Holder)

Gwilym Butler – Portfolio Holder - Resources

Local Member

Appendices

Appendix 1 – Medium Term Financial Strategy 2022/23 – 2026/27

Appendix 2 – Capital Strategy 2022/23 – 2026/27

Appendix 3 – Revenue and Capital Budget Book 2022/23 (will be attached electronically only)