



Committee and Date

Cabinet
14 December 2022

Item

Public

Financial Strategy Mid-Year Review

**Responsible
Officer**

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1. Synopsis

This report addresses our key challenges – inflation and post-COVID service changes - and sets out the largest savings programme ever proposed by the Council. This programme is defined by our priorities, and these proposals will secure a sustainable financial position in the coming years and enable delivery of The Shropshire Plan.

2. Executive Summary

- 2.1. The Shropshire Plan (TSP) was approved by Council on 12 May 2022 setting the Council's Vision: Shropshire Living the Best Life, and four key priorities – to develop Healthy People, A Healthy Economy, a Healthy Environment and a Healthy Organisation. A commitment was made to ensure that the Council's resources would follow the outcomes set out within TSP, and within the priority to deliver a Healthy Organisation is the Strategic Objective:

We will put our resources in the right place using accurate data, insights, and evidence to support the delivery of the organisation's priorities and balance the books

- 2.2. The Council's Medium Term Financial Strategy is the key strategic document within TSP that defines how finances over the medium term will be allocated and aligned to the outcomes set within TSP.
- 2.3. The MTFs is therefore determined by TSP outcomes and priorities – the budget for next year has been led by our priorities, rather than the other way around.

2.4. The revenue funding gap is summarised in the table below, and supporting detail is provided in the Appendix. The table shows that, in next year (2023/24), the latest estimate of resources amount to £635m. However, estimated spending is currently projected to be £682m, resulting in a shortfall. Savings proposals, in addition to those previously identified, have therefore been prepared amounting to £45m. When fully delivered, and with no other changes, this will result in a remaining gap of £1.7m.

REVENUE FUNDING GAP	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Estimated Funding	635,436,197	646,756,460	648,989,407	664,332,993	680,452,847
Estimated Expenditure (excl savings plans)	682,254,535	660,169,408	659,890,404	673,375,243	681,821,269
<i>Savings plans</i>	<i>(45,079,166)</i>	<i>(13,407,722)</i>	<i>(9,993,826)</i>	<i>(3,834,872)</i>	<i>(7,640)</i>
Estimated Expenditure (incl savings plans; table 3)	637,175,368	646,761,687	649,896,578	669,540,371	681,813,629
Funding gap in year	1,739,172	5,227	907,171	5,207,378	1,360,782

2.5. The total net savings amount of £45m excludes £6m of previous savings that were one-off or are now unachievable, so the full extent of all planned savings for next year is **£50.6m**. This includes

- £3.7m agreed in previous years for delivery in next year
- £8.5m of savings identified in the current year to address emerging challenges, in particular new inflationary pressures
- £15.8m of efficiency savings relating to more efficient ways of working, brought together as a new 'operating model' for the council
- £23m of general efficiency savings

2.6. Spending in the current year is expected to be around £656m, and – with no changes – next year's spending would be around £682m. This report and the appendix to it set out the measures we can take now to constrain council spending at a level more comparable to the current year, and to avoid costs increasing to an unaffordable level in the coming years. For that reason, despite difficult decisions being required, it is not expected that residents will see a noticeable deterioration in services provided 'on the ground', but they may see changes in the way services are delivered.

2.7. This report also provides an update on the Council's medium term financial outlook against the difficult financial environment that all local authorities are facing. It follows the updates provided to Cabinet in July and October 2022.

2.8. In setting the budget for 2022/23 at its meeting in February 2022, the Council also approved a medium-term financial plan. This estimated a gap of £33.9m based on the information known.

- 2.9. The July update to the MTFS recognised the impact of price inflation arising since February. However, the Council had taken early action to mitigate this and the estimated gap in 2023/24 was reported as £27.5m. based on the updated information then available.
- 2.10. In October the Mid-Year review demonstrated that this gap had increased to £35.8m as a result of increased estimated resources being more than outstripped by a significant rise in estimated expenditure, driven by inflationary factors impacting on pay and contractual costs and a post-COVID backdrop of increasing demand.
- 2.11. Both these update reports included assumptions around savings proposals that could be delivered in 2023/24. As the year has progressed, higher levels of savings have been identified and project planning begun to understand the implications of the savings and provide resilience around these proposals. Unfortunately, uncertainty in national and public finances over the summer and autumn period has meant that work has instead had to focus on identifying more savings proposals rather than developing and improving the resilience around those already proposed.
- 2.12. This means that identification of significant savings over the early part of the year only managed to restrict the funding gap to £35.8m by the end of October – a higher gap than projected in February despite the savings proposed. This report takes a forecast budget gap for the coming year of £35.8m as its starting point - using more detailed estimates for likely contract costs (including for the care sector) in 2023/24 less existing savings already identified.
- 2.13. The MTFS has been prepared in advance of knowing the outcomes of the Local Government Financial Settlement, which is expected on the 21 December. This may be better or worse than anticipated, and proposals will be reviewed once that information is published, ahead of finalising proposals for the meetings of Cabinet (February) and Full Council (March).
- 2.14. This is a significant budget challenge for the Council. Securing a balanced budget for 2023/24 is likely to require some challenging decisions and as a result a more radical, transformational approach is required. To achieve this will require investment and alignment of the organisation around the key outcomes as identified in TSP. By achieving this goal in 2023/24, however, the Council will have made significant progress towards securing a sustainable budget throughout the medium term.
- 2.15. The MTFS also includes details of the approved capital investment programme. This is aligned to the 5 years of the revenue spending estimates and sets out £450m of investments. The funding sources for this show that 71% is funded through government and other grants, and developer and other contributions. 9% is expected to be

funded from capital receipts realised in the period, and the remaining 20% is anticipated to be funded from prudential borrowing.

2.16. The MTF5 sets out the delivery strategy and highlights links to other strategic initiatives that are aligned to delivery of the TSP. These include:

- **Workforce Strategy (2022-25)**, which sets out how Council Staff will be supported and engaged with to help secure TSP outcomes.
- **'Getting it Right'**, an internal workforce guide, which sets out how the Council's priorities are supported by its values and link together the quality of customer and employee experiences.
- **'Getting Leadership Right'** - A programme which provides a framework for values-led leadership and a common organisational language for performance development. Participants in the first wave, which started in November, represent around 10% of all staff and include the Chief Executive and the wider Senior Leadership Team.

2.17. These interrelated programmes of work emphasise a co-ordinated, agile, and professionally skilled organisation. They provide significant support to the organisation as we adapt to our current environment and give confidence that the challenge set out in the MTF5 can be successfully delivered.

2.18. The appendix to the report provides further analysis on the changes that have occurred and the plans in place to address them.

3. Recommendations

That Cabinet

- a. Notes the factors affecting the estimated funding gap in 2023/24 to 2027/28 and the proposals to close that gap and thereby set a balanced budget for next year (the attachment to appendix 1).
- b. Approves the savings proposals which will contribute towards delivery of a balanced budget in 2023/24 as outlined in Appendix 1 Annex A, enabling the Leader of the Council to consult on the budget plans before presenting a final proposed budget to Council on 2 March 2023.
- c. Note and approve the draft capital programme identified at Appendix 1 including funding sources for these schemes.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. Not required for this report; further risk assessments and equalities impact assessments will be undertaken as part of the wider budget setting process.

5. Financial Implications

- 5.1. This report sets out the financial implications for the Council over the 2023/24 to 2027/28 Financial Years. Details are contained within the Medium Term Financial Strategy attached at Appendix 1.

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.
- 6.2. The future programme includes programmes to support a range of initiatives such as moving to LED street lighting, enabling agile and mobile working, so dramatically reducing travel. Further, support for Park and Ride schemes will help to reduce car emissions within town centres.
- 6.3. 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 24 February 2022. 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 2022 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 Shropshire Plan vision and priorities with the forecast resource and expenditure

estimates. It also helps the Council towards developing a sustainable budget over the medium term.

- 7.3. Previous Cabinet and Council meetings papers, including the budget report for 2022/23 (February 2022) and the MTFS update (July and also October, 2022).

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

Cabinet Member (Portfolio Holder)

Lezley Picton, Gwilym Butler.

Local Member

Appendices

Appendix 1 – MTFS update; December 2022