

**Committee and Date**

Cabinet

15th February 2023

Item

Public



Financial Strategy 2023/24 - 2027/28 - Final

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1. Synopsis

The latest update to Shropshire Council's MTFs includes the impact of proposed spending reductions and the financial settlement. Together, these set out a clear route to securing long term financial sustainability for the Council, aligning our resources to 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 MTFs brings together the planned revenue and capital estimates for resources and spending across the coming 5 years. It is shaped by the priorities of the Shropshire Plan, and clearly sets out the financial challenge and the opportunity created by successfully tackling that challenge.

3. Changes since the December report

- 3.1. This latest update of the MTFs sets out a much improved outlook for the medium term - for example, 12 months ago, the prospects for the year 2026/27 indicated a savings requirement of £56m. That is now reduced to £2.8m. Clearly, the extent of the challenge in the coming year cannot be underestimated, and the risk of failing in the challenge is severe. At the same time – the opportunity created is immense.

	2023/24	2024/25	2025/26	2026/27	2027/28
Funding Gap	£	£	£	£	£
Resources (incl savings plans)	645,741,039	646,324,105	637,800,561	649,655,202	662,033,548
Expenditure (incl savings plans)	690,271,309	690,887,339	681,202,417	694,773,327	709,141,914
Gap in year	44,530,271	44,563,234	43,401,856	45,118,125	47,108,367
One off Grants & Reserves:					
Improved Better Care Funding	9,896,143	10,252,045	10,618,624	10,996,201	11,385,105
New Homes Bonus - One Off	0	0	0	0	0
Rural Services Delivery grant	7,757,314	7,757,314	7,757,314	7,757,314	7,757,314
Social Care Grant - One Off	21,547,059	22,193,471	22,859,275	23,545,053	24,251,405
Services Grant	2,065,886	0	0	0	0
Market Sustainability and Fair Cost Fund	3,263,869	3,263,869	0	0	0
TOTAL ONE OFF FUNDING	44,530,271	43,466,699	41,235,213	42,298,568	43,393,823
Remaining Gap/(Surplus) to be Funded	0	1,096,536	2,166,643	2,819,557	3,714,543

- 3.2. Additionally, the period since the December update to Cabinet has included two key related areas of work – the public consultation on the budget proposals and the preparation of Alternative Budget proposals by opposition parties.
- 3.3. Public consultation has secured a high level of return (the highest of recent years) and the weight of respondents' opinion is clearly in favour of both the proposed council tax increase and the approach to securing spending reductions, income generation and service efficiencies outlined in the budget proposals. This consultation closes on 31 January, and a report will be included alongside the formal budget proposals taken to Full Council on 2 March.
- 3.4. Alternative budget proposals were received by Performance Management and Scrutiny Committee on 11 January and an update provided by the Chair at the Cabinet meeting of 18 January. Cabinet expressed their gratitude for the work of opposition Councillors in submitting their proposals and have undertaken to review them as part of the finalisation of the budget proposals for Full Council.
- 3.5. Three further factors have also led to changes in the MTFs. These are the final financial settlement for local government, the forecast on the collection fund, and the budget forecast for the current year.

3.6. The settlement outcomes were positive for the council. Published on 6th February, the headline on the provisional settlement was that there was a 9.2% average increase for all councils in terms of the 'Core Spending Power' (CSP) measure which is preferred by government. CSP is comprised of three elements set out below.

- estimated Council Tax receipts,
- the 'settlement funding assessment' (SFA – combining retained business rates receipts, various related grants, and the Revenue Support Grant),
- various grants

3.7. The movement from the December MTFS assumptions and the current MTFS assumptions are summarised in the table below.

	2023/24 Dec Cabinet £m	2023/24 Feb Cabinet £m	Change £m	Commentary
Council Tax	(193.6)	(193.6)	0	Council Tax referendum levels notified in Autumn Statement so amended for December Cabinet
Council Tax Collection Fund Surplus/(Deficit)	0.1	(2.3)	(2.4)	Collection Fund Estimate considered on Cabinet's agenda
Business Rates Collected	(35.8)	(38.0)	(2.3)	Locally determined following production of NNDR1
Business Rates - Energy Renewable Schemes	(1.0)	(1.4)	(0.4)	Locally determined following production of NNDR1
Top Up Grant	(10.0)	(11.1)	(1.1)	Announced in Provisional Settlement as part of Settlement Funding Assessment
Business Rate Collection Fund Surplus/(Deficit)	0.2	(2.0)	(2.2)	Collection Fund Estimate considered on Cabinet's agenda
Revenue Support Grant	(6.5)	(7.5)	(1.0)	Announced in Final Settlement as part of Settlement Funding Assessment
Core Funding Grants	(37.6)	(49.9)	(12.3)	Announced in Final Settlement
Other Funding	(316.1)	(339.9)	(23.8)	Changes in other specific grants and other income budgets
Resources	(600.2)	(645.7)	(45.5)	
Expenditure Budgets	688.3	720.8	32.5	Changes in expenditure budgets as a result of specific grant and income budget changes
Use of Core Grants	(35.2)	(44.5)	(9.3)	Announced in Final Settlement
Savings	(51.2)	(51.4)	(0.2)	Savings have not been amended
Contribution to General Fund	0	20.9	20.9	Required as a result of the Q3 2022/23 projected outturn
Expenditure	602.0	645.7	43.8	
Funding Gap	1.7	(0.0)	(1.7)	

3.8. The Collection Fund forecast is also positive and indicates a £4m improvement in the outturn position for both council tax and business rates. A more detailed report is included elsewhere on this agenda.

3.9. By contrast to the above factors, the latest forecast for the financial outturn in the current year (quarter 3) is a £9.950m overspend (Q3) and is significantly driven by spending pressures in both adults' and children's social care.

- 3.10. The year to year budgetary impact of this is that, at that level, the outturn overspend will need to be funded from the General Fund balance. Currently at £15m, the balance will be reduced to an unsustainable level. The highest priority for the new year will therefore be to restore the General Fund balance to a reasonable operating level in the coming year, with further restoration in future years.
- 3.11. While no clear guidance is provided on target levels of unallocated reserves, a reasonable assumption would be to have 3%-5% of gross spending. Based on the £688m estimated total revenue spending in 2023/24 set out above, this would equate to a General Fund balance of between £20m and £34m.
- 3.12. Holding unallocated reserves at this level is a key indicator of overall financial resilience as it ensures that a council is able to sustain unanticipated (i.e. unbudgeted) shocks without needing to take immediate remedial action – recent examples of these sorts of shocks include the impact of unexpected changes to inflation, sudden widespread disease, or extreme weather events.
- 3.13. Based on the data from the year 2021/22, the CIPFA Resilience Index provides a comparison between a variety of key measures impacting on financial sustainability across all councils. Comparison of the Shropshire reserves position with nearest statistical neighbours shows that, as at March 2022, Shropshire was 14th out of 15 similar councils.
- 3.14. If the first priority of the MTFs is to ensure financial resilience, which indicates the priority in 2023/24 must be ensuring a viable General Fund balance, the next priority will be to support the delivery of the planned savings – using additional resources to ‘de-risk’ proposals, for example by identifying ways to support delivery and provide the best chances of success.
- 3.15. Taking these points together, they can be summarised as:
- £12.4m of Improved forecast in 2023/24 resources arising from estimates of council tax receipts and SFA items providing the majority of funding required to restore the General Fund balance
 - £12.3m of growth in ‘core’ grants will be used to de-risk related efficiency proposals, either through support in delivering those proposals or through provision of ringfenced funding held as ‘contingency’
 - £23.8m of growth in ‘other grants’ is ringfenced to those objectives (also set out in more detail in appendix 1).
- 3.16. The Capital Strategy 2022/23 – 2027/28, detailed at Appendix 2 has been rolled forward from the 2021/22 – 2026/27 Capital Strategy, but reflects the latest information on the capital programme, and updates where additional funding has been secured for Council projects such as the Levelling Up Funding. It is the intention that a mid-year review will be carried out of the prioritised projects contained within the Capital Strategy in 2023/24.

4. Links to other documents on this agenda

- 4.1. The MTFS is supported on this agenda by the Treasury Management strategy and the proposed fees and charges for 2023/24, and also by the Collection Fund Outturn. These accompanying documents flesh out how the financial objectives of the council will be met in other areas.

5. Recommendations

- 5.1. That Cabinet consider the MTFS and, subject to any amendment, recommends the 2023/24 budget of £645.741m outlined in the Budget Book at Appendix 3, to full Council for discussion and approval.
- 5.2. That Cabinet discusses the key changes since the December update of the MTFS and the advice relating to those changes, in particular
 - The public consultation and early results from that
 - The Alternative Budget process and its outcomes
 - The Financial Settlement and the outcomes for this Council
 - The Collection Fund outturn and the impact on next year
 - The latest budget forecast for the current year, the deterioration in the outlook, and the resulting likely impact on reserves in this year and next (also included in the MTFS assumptions)
- 5.3. That Cabinet notes that the Council papers will include the full budget report including all proposals to achieve the estimated MTFS position, but that some of those proposals will require further specific member approval, and possible consultation.
- 5.4. Agree the adoption of the Capital Strategy 2022/23 – 2027/28 attached as Appendix 2.
- 5.5. That Cabinet notes that the budget report for Council will include the council tax resolution and the relevant decisions to be made in setting that.

6. Risk Assessment and Opportunities Appraisal

- 6.1. The finances of the Council are complex and their management entails having due regard to a range of risks. These are set out in the appendix and will be further elucidated in the forthcoming budget proposals for Full Council.
- 6.2. Cabinet should be aware that the attached MTFS and the forthcoming budget report for Full Council include some measure which are already covered within delegations to officers and as such can be implemented without further member or public involvement. Some other proposals (marked as 'policy' proposals) are new areas of policy and so, in the proper manner, will be required to be brought back to Councillors in the appropriate forum for decision, and may also require public consultation and/or relevant impact assessments. Appropriate advice will be sought in the implementation of both efficiency and policy measures to ensure that the requirements of the Constitution are complied with.

7. Financial Implications

7.1. The subject of the report.

8. Climate Change Appraisal

8.1. The measures set out in the MTFS include provision for investment of resources in climate change mitigation measures.

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

February 2022 Cabinet

- Cover report: [Date \(shropshire.gov.uk\)](#)
- MTFS document: [Appendix 1 - Medium Term Financial Strategy 2022-23 - 2026-27.pdf \(shropshire.gov.uk\)](#)

July Cabinet

- Cover report and MTFS document: [\(Public Pack\)11 Financial Strategy 22/23 Review Agenda Supplement for Cabinet, 20/07/2022 10:30 \(shropshire.gov.uk\)](#)

October Cabinet

- Cover report: [Date \(shropshire.gov.uk\)](#)
- MTFS document: [Appendix 1 - V2 Oct Medium Term Financial Strategy 2023-24 - 2027-28.pdf \(shropshire.gov.uk\)](#)

December Cabinet

- Cover report [Date \(shropshire.gov.uk\)](#)
- MTFS document [Appendix 1 - Dec Medium Term Financial Strategy 2023-24 - 2027-28 Final.pdf \(shropshire.gov.uk\)](#)
- Council Tax base - [Date \(shropshire.gov.uk\)](#)

Local Member: All

Appendices

Appendix 1 – Medium Term Financial Strategy

Appendix 2 – Capital Strategy

Appendix 3 – Budget Book