

MEDIUM TERM FINANCIAL STRATEGY 2025/26 – 2029/30

October 2024





Foreword

It continues to be a challenging time to be managing services in local Councils. We are significantly stretching the available resources to continue to meet the needs of local people in the best way we can, while also remaining within the limits of the budget.

This Medium Term Financial Strategy (MTFS) update provides our latest view on the current position. We continue to take the view that we can and will work within the available resources, limiting what we can deliver as and when necessary, through a planned process for reducing spending. That was the purpose of the budget for 2024/25, and the MTFS to 2030 helps further shape our understanding of the financial outlook for the council.

In the meantime, we both commend the hard work of officers as they continue to both improve services and reduce spending at the same time.



Lezley Picton
Leader of the Council



Andy Begley
Chief Executive

Introduction

Over the past year, there's been a series of national media reports detailing the challenges encountered by local government. Symptoms of these struggles include Public Interest Reports, Section 114 Notices, and the need for Government Emergency Financial Support. Various factors are driving this, making it crucial to overhaul how Council staff are directed and organized. As Council members know, we must significantly cut our spending to meet available resources.

Achieving the Strategic Objectives outlined in The Shropshire Plan (TSP) must reflect our local economic landscape and reflect unavoidable service reductions. This will be carefully managed by implementing new ways of working, refining customer experience management, prioritizing digital solutions, and reassessing third-party commissioning and spend. These measures alone may not assure sustainability. We also need to find solutions for relentless growth in service demand and we also need structural reform to local government financing. Nevertheless, the work we are progressing provides a foundation upon which the MTFS will be based.



Gwilym Butler
Cabinet Member
for Finance



James Walton
Executive Director
of Resources

Medium Term Financial Strategy Timeline



Medium Term Financial Strategy Development

The objective in the current year is to secure a sustainable financial position across all coming years, prioritising a secure position and financial survival in the current year as a first step. Whilst monitoring of the 2024/25 budget is a key focus for the Council in this financial year, it is important to also work on the 2025/26 – 2029/30 Financial Strategy to ensure that any necessary action is taken to ensure the preparation of a robust and balanced 2025/26 budget and a sustainable financial strategy in the future.

This update to the Medium Term Financial Strategy encompasses updates to the inflation and demographic growth, as well as a review of other assumptions included as detailed in the July MTFS.

The next step that will be taken in the development of the Medium Term Financial Strategy will be specific service star chambers, where delivery of existing savings proposals will be reviewed, alongside reviewing the current build up of the budget for 2025/26 to review if further action can be taken to reduce demand pressures, and identify new ongoing savings which will not only deliver a balanced budget in 2025/26, but also deliver a sustainable medium term financial strategy.

The Council will also await details of the budget from the government to consider any potential implications or announcements for local government funding which will be fed into the December MTFS.

Medium Term Financial Strategy

Significant Updates



Shropshire Plan Objectives and Financial Sustainability

Shropshire Council is now in the final year of delivery of The Shropshire Plan (2022-2025). The financial position of the council remains highly challenging. One of the key strategic objectives within the Healthy Organisation priority is to “align our resources” by putting 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. This is extremely challenging given several factors that can impact on the Council’s financial position. The overall financial position has been analysed into seven separate areas that underpin the strategic risk "Inability to Contain overall committed Expenditure within the Current Available Resources within this Financial Year”:

1. **Sufficient savings not being realised in-year** – The Council has a requirement to deliver £62.5m in 2024/25 on an ongoing basis, in order to put the Council on a more sustainable footing in future financial years. To track delivery against the targets, savings trackers have been created with increased visibility across the Council of the latest delivery position. These also track whether savings have been delivered on a one-off basis for 2024/25 or an ongoing basis, to enable the impact of the medium term financial strategy to be identified. In 2023/24 several savings were delivered on a one-off or a non-sustainable basis (turnover levels and holding vacancies), and these savings are continuing to be monitored to ensure that they are found on a permanent basis. Officers are focussed on managing the entirety of the savings to be delivered in a sustainable way, including the £62.5m identified this financial year.
2. **Demand in social care is higher than budgeted** – In 2023/24 the Council experienced increasing demand for Adults and Children’s Social Care, which outstripped the budget allocation provided. To address this significant growth was added to the social care budget offset by several demand management initiatives implemented to reduce the demand for social care into the future, including early help and preventative measures. There have been significant developments in tracking the data in relation to social care demand and aligning this with the budget so that any budget pressures arising in this area can be fully understood and the impact of demand mitigation plans can be seen and evidenced.
3. **Other unforeseen unbudgeted financial pressures arise** – Each year when setting the budget, the S151 Officer considers the robustness of estimates included within that budget, to ensure that all known factors have been included and considered when setting the budget. As we move into delivery of the budget, however, it is possible that demand for services or the wider environment may create unforeseen budgetary pressures. Financial dashboards are available to all budget holders to track spend and income against the budget, so that any budget pressures arising can be identified immediately and mitigating action taken.
4. **Capital receipts are not sufficient to cover redundancy costs, transformation costs (PwC and staffing) and capital programme**

requirements – Capital receipts will be used in 2024/25 to fund transformation costs and redundancy costs, however the estimated level of capital receipts required in 2024/25 is £49.824m, of which £12.383m is ringfenced to specific requirements (e.g. HRA or DSG property) – see table below.

Current estimates show projected receipts in-hand of £22.077m, comprising £15.175m brought forward from 2023/24 and £6.902m projected to be realised in-year. This therefore leaves further capital receipts of £27.747m to be delivered for 2024/25. A further £58.283m of surplus assets have been earmarked for disposal but do not yet have clear disposal plans in place.

This is the current summary position, but actual levels of receipts required in-year is subject to change and driven by actual scheme delivery and the progress of transformation activities during the year. Where schemes requiring funding from capital receipts cannot be so funded, borrowing will be required. Where transformation costs progress to a level beyond available capital receipts, this will be a pressure to the revenue budget.

	2024/25	2025/26	2026/27	2027/28	2028/29
Corporate Resources Allocated in Capital Programme	14,343,850	8,893,385	4,100,000	525,346	-
Capital Programme Ring-fenced receipt requirements	12,383,333	20,341,002	-	-	-
Transformation activities	23,097,181	-	-	-	-
Total Commitments	49,824,364	29,234,387	4,100,000	525,346	-
Capital Receipts in hand/projected:					
Brought Forward in hand	15,175,259	-	27,747,514	-	56,916,901
Generated 2024/25 YTD	1,265,948	-	-	-	-
Projected - 'Green'	5,635,644	65,000	65,000	65,000	-
Total in hand/projected	22,076,850	-	27,682,514	-	60,886,901
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	27,747,514	56,916,901	60,951,901	61,412,247	61,412,247
Further Assets Being Considered for Disposal (Amber/Red)	58,283,331	23,108,940	12,550,750	6,523,050	-

- 5. External factors leading to increased cost pressures (e.g. reviews by Ofsted, CQC, DfE (SEND) review; unanticipated geo-political events renew inflationary pressures; a further epidemic)** – In the last 12 months the Council has been subject to an Ofsted and CQC visit, and it is possible that if actions are required to address any recommendations made from external bodies, then this could result in increased in-year costs for the Council. Also, as has been experienced over the last 24 months, it is possible that instability in international economies can impact directly on the UK economy and inflationary pressures in the market. Where this occurs, the Council has to react by trying to identify compensatory measures to bring the budget into balance.
- 6. Project risks (e.g. capital projects impacting on revenue, including payback of grant)** – The Council plans to undertake some large scale capital projects in a bid to deliver key objectives within The Shropshire Plan. As can happen with large scale projects, there are several risks relating to delivery within budget and timescale, including external factors that may impact on this. Should the Council be unable to progress existing major projects, and should an asset no longer be developed, any capital expenditure incurred on the project to date would need to fall back on the revenue budget. In this scenario, this could cause a significant

budgetary pressure the Council would be unable to mitigate without external support.

7. **Cashflow with stalled liquidity (no/low cash position leads to late supplier or staff payments)** – the cashflow position for the Council needs to be carefully managed, particularly given that the level of reserves and balances have reduced over the last two years. Therefore, it is essential to ensure that the Council remains liquid at all times to ensure that it has the necessary funds to enable it to meet any financial commitments.

Medium Term Financial Strategy – Key Assumptions

The 2024/25 – 2028/29 Financial Strategy, presented to Cabinet in July included several key assumptions for resources and expenditure in future financial years. As the Council works through the development of the 2025/26 Budget and five year financial strategy to be approved next February, it essential that these assumptions are always reviewed, to ensure that the financial position of the organisation is accurately portrayed.

Detail of the review of the key assumptions for Resource Projections are set out in Table 1.

Table 1 : Review of Key Assumptions for Resources

Resources	Assumption as Included in Financial Strategy Approved in July 2024	Revised Assumption
Council Tax	1.99% increase to Council Tax and 1% increase to Social Care Precept. A 1.20% increase in the taxbase is assumed.	Increase council tax to 2.99% and the ASC precept to 2%.
Business Rates	Growth of 0.8% and multiplier increase of 1% assumed.	No change proposed, until the government confirms business rate reliefs to continue.
Top Up Grant	Grant remains cash flat from 2024/25 level received	No change proposed.
Revenue Support Grant	Grant inflated by 2% each year.	No change proposed given inflation levels currently sitting near 2%
Collection Fund Surplus/Deficit	Nil value	Will remain at nil value until estimated collection fund outturn can be accurately predicted in January.
Core Funding	Improved Better Care Funding assumed as cash flat New Homes Bonus assumed will no longer be paid by government Rural Services Delivery Grant assumed would be cash flat from 2024/25 amount received Social Care Support Grant assumed would be cash flat from 2024/25 amount received Market Sustainability and Improvement Funding assumed would no longer be paid as government only committed to 2022/23-2024/25.	No change proposed No change proposed No change proposed No change proposed It is likely that all Social Care grants paid will be reviewed by the new government following the budget, so will await this review before amending this assumption.

Resources	Assumption as Included in Financial Strategy Approved in July 2024	Revised Assumption
	<p>Discharge Funding assumed would no longer be paid as government only committed to 2023/24-2024/25.</p> <p>Service Grant assumed would be no longer paid as has been reducing last 2 years.</p>	<p>It is likely that all Social Care grants paid will be reviewed by the new government following the general election, so await this review before amending this assumption.</p> <p>No change proposed</p>
Local Income	<p>Fees and charges, other grants and contributions and internal recharges assumed same level as 2024/25</p> <p>Specific Grants are projected based on known grants that are continuing into 2025/26.</p>	<p>More detailed review will be done when setting 2025/26 budget, so will be updated in February</p> <p>Will be updated in February as the government provides grant notifications for 2025/26 and beyond.</p>

The only change to assumptions currently played into the Resources projections for 2025/26 and beyond is the increase of council tax precept to 2.99% and the adult social care precept to 2%. The impact of this is shown in Figure 2 below.

The net budget in the current year is £261.7m. The revised net budget for next year is estimated as £278.5m. This is overall growth in the net budget of 6.4%, or £16.8m. Gross resources are expected to be £705.2m.

Figure 2: Movement in Resources Projections for 2025/26

Estimated Resources	2025/26 @ Jul Cabinet £	Movement £	2025/26 @ Oct Cabinet £
Council Tax	213,771,382	4,151,791	217,923,173
Business Rates:			
Business Rates Collected	40,458,919	0	40,458,919
Business Rates - Energy Renewable Schemes	1,000,000	0	1,000,000
Top Up Grant	10,924,574	0	10,924,574
RSG	8,213,207	0	8,213,207
Collection Fund:			
Council Tax	0	0	0
Business Rates	0	0	0
NET BUDGET	274,368,082	4,151,791	278,519,873
Grants included in Core Funding:			
Improved Better Care Fund	11,863,403	0	11,863,403
New Homes Bonus	0	0	0
Rural Services Delivery Grant	8,982,153	0	8,982,153
Social Care Support Grant	28,850,166	0	28,850,166
Market Sustainability and Improvement Funding	0	0	0
Discharge Funding	0	0	0
Services Grant	0	0	0
CORE FUNDING	324,063,805	4,151,791	328,215,595
Local Income			
Fees and charges (including income savings deliverable from prior years)	98,525,470	0	98,525,470
Other Grants and contributions	36,829,400	0	36,829,400
Specific Grants (excluding Core Funding Grants above)	230,091,704	0	230,091,704
Internal Recharges	11,574,290	0	11,574,290
TOTAL FUNDING	701,084,669	4,151,791	705,236,459

Detail of the review of the key assumptions for Expenditure Projections are set out in Table 2.

Table 2 : Review of Key Assumptions for Expenditure

Expenditure	Assumption as Included in Financial Strategy Approved in July 2024	Revised Assumption
Inflation	<p>Pay inflation has been built in at 2.5% reflecting current level of CPI within the economy</p> <p>Contract and Corporate Landlord inflation assumed at 2.5%.</p>	<p>Pay inflation required has been recalculated based on current staffing levels at 2.5% which broadly reflects the current level of CPI within the economy.</p> <p>Contract and Corporate Landlord inflation included as per inflation implied within contracts. This is mainly at RPI of 3.5% however the range of inflation depending on individual contracts is from 1% to 13%.</p>
Demography & Demand	<p>Adult Social Care growth of 7.6% assumed</p> <p>Children's Social Care assumed to grow on same basis as 2024/25.</p>	<p>Based on current levels of demand, growth has been amended as following:</p> <p>Adult Social Care growth revised to 6.5%.</p> <p>Children's Social Care Growth of 17% is required to re-set the Children's Social Care budget and related service areas based on current levels of demand, and an additional 10% increase is anticipated for 2025/26.</p> <p><u>These are early figures</u> based on the actual costs and activity in the first 6 months of the year and may vary up or down by c 10%.</p> <p><u>Mitigating measures</u> will be brought forward in the next MTFS update (in December). These increases also take account of wider impacts, for example in the costs of childcare legal support in the legal team.</p>
Service Specific Pressures	Reduction in growth as agreed in prior years	No change proposed.
Local Generated Pressures	<p>Cost of Election included for 2025/26 only as per 4 year election cycle</p> <p>Specific grant changes as per known notifications to grants as per February 24</p> <p>Ongoing reduction in New Homes Bonus based on resources reduction</p> <p>Estimated Cost of Investment is based on known increases to prudential borrowing</p>	<p>No change proposed</p> <p>No change proposed. This will be updated in January/February when grant notifications have been received for 2025/26.</p> <p>No change proposed</p> <p>Following a review of anticipated borrowing costs resulting from the Capital Programme and Capital Strategy, the estimated cost of borrowing has been reduced.</p>

Expenditure	Assumption as Included in Financial Strategy Approved in July 2024	Revised Assumption
	<p>Contribution to General Fund assumes a minimal reduction from the 24/25 level to reflect the additional Rural Service Delivery Grant that was contributed here in 24/25</p> <p>MTFS reserve one off contribution.</p>	<p>No change proposed</p> <p>No change proposed.</p>
Savings	Savings identified as per savings identification work taken out in February 2024.	Initial review of indicative savings for 2025/26 have identified a number that are no longer deliverable, in some cases due to these areas being progressed in 2024/25 to achieve the existing savings plans.

The impact of the changes to expenditure assumptions as detailed above are set out in Figure 3.

Figure 3: Movement in Expenditure Projections for 2025/26

Estimated Expenditure	2025/26 @ Jul		2025/26 @
	Cabinet	Movement	Oct Cabinet
	£	£	£
Original Gross Budget Requirement	761,650,104	0	761,650,104
Inflationary Growth :			
Pay	3,749,242	-445,852	3,303,390
Apprenticeship Levy	14,930	-2,490	12,440
Pensions	0	0	0
Corporate Landlord inflation	200,706	21,690	222,396
Contract inflation	3,070,051	3,009,083	6,079,134
Demography & Demand	15,428,710	14,470,351	29,899,061
Service Specific Pressures:			
Revenue Growth arising from capital programme	-400,000	0	-400,000
Ongoing Budget Pressures	0	0	0
Local Generated Pressures:			
Elections	700,000	-	700,000
Specific Grants Changes between years	-20,565,222	0	-20,565,222
Ongoing reduction in New Homes Bonus (pressure)	1,747,510	0	1,747,510
Estimated Cost of Investment - <i>Approved</i>	3,104,000	-2,080,550	1,023,450
Contribution to General Fund	-1,224,839	0	-1,224,839
Contribution to Development Reserve - Transformation	0	0	0
MTFS reserve (savings slippage/optimism bias)	10,750,000	0	10,750,000
Capital Investment/Transformation Fund	0	0	0
Climate Change/Energy Efficiency Fund	0	0	0
Adjustment to Gross budget offset by Income changes	0	0	0
Savings			
<i>Savings Agreed in Previous Financial Years</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>TOM Budget Savings</i>	<i>-2,135,000</i>	<i>2,120,000</i>	<i>-15,000</i>
<i>Reduce Cost Budget Savings</i>	<i>-4,078,863</i>	<i>2,670,000</i>	<i>-1,408,863</i>
<i>Manage Demand Budget Savings</i>	<i>-430,000</i>	<i>0</i>	<i>-430,000</i>
<i>New Income Budget Savings</i>	<i>-1,622,000</i>	<i>1,000,000</i>	<i>-622,000</i>
<i>Charge More Budget Savings</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Stop/Cease Budget Savings</i>	<i>-3,447,010</i>	<i>3,000,000</i>	<i>-447,010</i>
TOTAL EXPENDITURE	766,512,320	23,762,232	790,274,552

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Summary Financial Position for Shropshire

The current projection for 2025/26 shows a funding gap of £37.309m as set out in Figure 4.

Figure 4: Funding Gap over the Medium Term Financial Strategy

Funding Gap	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Resources (incl savings plans)	705,236,459	721,068,348	737,395,376	754,568,668	772,867,238
Expenditure (incl savings plans)	790,274,552	817,415,608	838,016,521	869,012,781	901,386,057
Gap in year	85,038,093	96,347,260	100,621,146	114,444,113	128,518,819
<u>One off Grants & Reserves:</u>					
Improved Better Care Funding	-9,896,143	-9,896,143	-9,896,143	-9,896,143	-9,896,143
New Homes Bonus - One Off	0	0			
Rural Services Delivery grant	-8,982,153	-8,982,153	-8,982,153	-8,982,153	-8,982,153
Social Care Grant - One Off	-28,850,166	-29,715,671	-30,607,141	-31,525,355	-32,471,116
Market Sustainability and Improvement Fun	0	0	0	0	0
Services Grant	0	0	0	0	0
TOTAL ONE OFF FUNDING	-47,728,462	-48,593,967	-49,485,437	-50,403,651	-51,349,412
Remaining Gap/(Surplus) to be Funded	37,309,630	47,753,293	51,135,708	64,040,461	77,169,407
Increase in Funding Gap per Year	37,309,630	10,443,663	3,382,415	12,904,753	13,128,945

As with any financial strategy, there are several risks and opportunities around the figures presented, and further details and clarity will be realised later in the financial strategy development. The key risks and opportunities identified at this early stage of the process are as follows.

Opportunities:

- Social care grant allocations are reviewed by the new government following the general election and market sustainability and improvement funding and discharge funding are announced to continue at similar levels to that received in 24/25. This would provide an additional £8.870m.
- Demand management work within Adult Social Care and Children's social care, could help to reduce the projected demography growth that has been identified.

Risks:

- Current Savings delivery for 2024/25 indicate a gap of £43.742m in ongoing savings delivery. There is a risk that permanent ongoing savings cannot be identified to this level and so these savings are to be removed on an ongoing basis, creating a new pressure.

As seen above the opportunities provided to the Council, are dependent on external factors including decisions made by the Government, following the general election. The risks however are very much in the Council's hands as this relates purely to savings delivery and so it is imperative that the Council's key focus is on delivering the 2024/25 savings on an ongoing basis, not only for the 2024/25 year, but also to prevent further budgetary problems rolling forward to 2025/26. Alongside this, it is imperative that plans commence to address the £37.3m funding gap identified in Figure 4.

Financial Stability – Reserves and Balances



General Fund Balance

The General Fund Balance (GFB) held as at 1 April 2024 is £38.8m. The balance held of £38.8m is comprised of £8.2m brought forward plus £30.6m contribution identified in the 2024/25 budget. The Council is working to ensure that the General Fund Balance is protected at a level of at least £30m from 2025/26, to ensure a greater level of overall financial resilience. This can be achieved through: -

- contributions into the balance (as above), and
- measures to reduce future calls on the GFB such as wider rebalancing of council budgets.

Scope exists for a further contribution of £29.4m to the GFB in at the start of 2025/26, but this is under review, and the outturn position for 2024/25 and resulting drawdown from the GFB.

Earmarked Reserves

The Council has assumed in previous financial strategies that it would use earmarked reserves, particularly the Financial Strategy Reserve, to help balance the budget. The Financial Strategy Reserve was fully applied in 2022/23 and remained at zero in 2023/24. The March 2024 MTFS assumed a £4m contribution in 2024/25 and £15m in 2025/26. The total value in Earmarked Reserves as at 1 April 2024 was £28.1m (excluding schools related reserves). The Council's March 2024 financial strategy includes provision to replenish reserves in the future, although the exact level will depend on the progress made in rebalancing the budget. This will start to move Shropshire from being a significant outlier compared to benchmark and afford the Council the resources to deal with unexpected challenges, and the potential investment in further transformation and improvement of its services.