

**Committee and Date**Cabinet  
21<sup>st</sup> February 2024

Item

Public



## Budget 2024/25 and Financial Strategy 2024/25 – 2028/29

<b>Responsible Officer:</b>	James Walton		
email:	<a href="mailto:james.walton@shropshire.gov.uk">james.walton@shropshire.gov.uk</a>	Tel:	01743 258915
<b>Cabinet Member (Portfolio Holder):</b>	Cllr Gwilym Butler		

### 1. Synopsis

This report sets out the 2024/25 budget plans for Shropshire Council; proposals including £56m spending reductions and £6m demand reduction measures. Despite the pressures in delivering Council services, we continue to work towards a wider plan and vision for Shropshire.

### 2. Executive Summary

- 2.1. The Council has delivered a level of spending reductions through 2023/24 which is entirely unprecedented, £41m at the time of writing, which exceeds anything previously achieved. Further, much of this has been achieved working closely with our delivery partner (PwC) and without significant impact on the services received by residents focussing instead on review of service delivery. The absence of significant communication and policy change approved by Members attests to this.
- 2.2. The level of savings targeted in 2023/24 was identified as part of a BBC survey as one of the most stretching in the country. Our plans to achieve this focused on

improvements to efficiency and impact, minimising the impact on services and staff.

- 2.3. The 2023/24 financial year, however, was challenging in terms of the inflationary pressures encountered and the significant increase in social care demand experienced from January/February 2023 onwards. Inflationary pressures in September 2022 were at a significant high (CPI was 10.1%). The September baseline is a common position from which the inflator for the coming year contracts is set. The impact of CPI being 10% in September 2022 was therefore experienced in significant cost increases experienced in 2023/24. Social care demand also continued to be a major pressure. Amongst older adults and working age adults, many were suffering the direct and indirect consequences of COVID with significantly higher care needs than had been encountered in the pre-COVID period.
- 2.4. It was anticipated that proposals delivered in 2023/24 would put the Council on a stable financial footing over the medium term. The dual challenges of increasing inflation and rising demand for social care (in common with all upper-tier councils) have prevented us achieving that in full, something we have consistently and unambiguously reported through the year. We have planned extensively for the necessary changes in 2024/25, ensuring full alignment of all budgets with our objectives and resources. We have continued to take opportunities to transform services to be more efficient, and to review our 'current operating models' in the context of a more unified 'target operating model' or TOM. We have also developed broader approaches to demand management, enabling us to better meet the challenges of demand increases.
- 2.5. Despite the challenges encountered through the year, the objectives and overarching vision of The Shropshire Plan remain a clear guide to the priorities for the 2024/25 budget and the MTFs period following to 2028/29. The challenges are, however, more severe than previously anticipated, and our response must be necessarily robust.
- 2.6. Given the national political climate, there is no clear national policy for local government funding to be changed in the coming years. That will be subject to the outcome of an imminent general election and, even then, may take some time to be realised (if at all). So, we must plan based on what we know, what residents indicate as their preferences, and within the resources we know we have available.
- 2.7. The successive and iterative MTFs updates in October and December 2023 were unambiguous in the expected need for substantial spending reductions to be achieved in 2024/25 and the reasons for this. The budget consultation which closed on 28 January 2024 secured an unprecedented level of responses from residents and other interested parties. These responses broadly confirmed the approaches proposed by the Cabinet and Councillors, including the need to increase Council Tax, preferred options for more and less protected services and other mitigations for our cost pressures. Our budget proposals for 2024/25, difficult as they may be, are therefore directed and aligned as far as possible both with political direction and local resident preferences.
- 2.8. This report sets out the budget proposals for 2024/25, themselves reflecting the service delivery plans for the year from a financial perspective. Robust delivery

plans will provide greater assurance in achievement of the proposals, as will continued engagement of our delivery partner PwC over the medium term. The proposals build upon the significant improvements made during the last year, in our wider governance, transparency and accountability and set the Council on a sustainable path for the future.

### 3. Recommendations

#### 3.1. That Cabinet notes

- i. the alignment of this report with other reports on this agenda, including the Fees and Charges proposals, the proposed Capital Strategy, and the proposed Treasury Strategy; also the alignment to the position reported for the current financial year, set out in the Q3 Financial report and the Q3 Treasury Management report.
- ii. the analysis of the financial position of the council set out in this report and confirms the alignment of the new proposals to the outline of the necessary actions for 2024/25 already set out in the December update to the MTFS.
- iii. the levels of reserves in recent years, the forecast levels of reserves at the end of the current year, and the plans set out to ensure the adequacy of the reserves in future years.
- iv. the proposed capital investment programme including the commentary on priority schemes.
- v. the proposed spending reductions for 2024/25.
- vi. the approach of combined spending reductions and replenishment of general reserves.

#### 3.2. That Cabinet recommends to Council

- vii. Approval of the budget proposals, including revenue and capital budgets, and the associated strategies, subject to further amendments required by Cabinet, or identified as necessary by the Chief Finance Officer (“CFO”).
- viii. to approve a delegation to the CFO in consultation with the Portfolio Holder - Finance, Corporate Resources and Communities to enable specific work to be commissioned from PwC in line with the conditions set out in paragraph 4.8.

## 4. Report

### Proposed spending reductions

- 4.1. The spending reductions set out in the Medium Term Financial Strategy (Appendix 1) to this report are summarised below. Overall, there are £62m of proposed measures.

Category of Saving	2024/25 £	2025/26 £	2026/27 £
<b>Reduce Cost</b>			
Health & Wellbeing	1,253,600	-930,000	0
People	5,698,000	250,000	0
Place	6,157,765	1,958,863	112,050

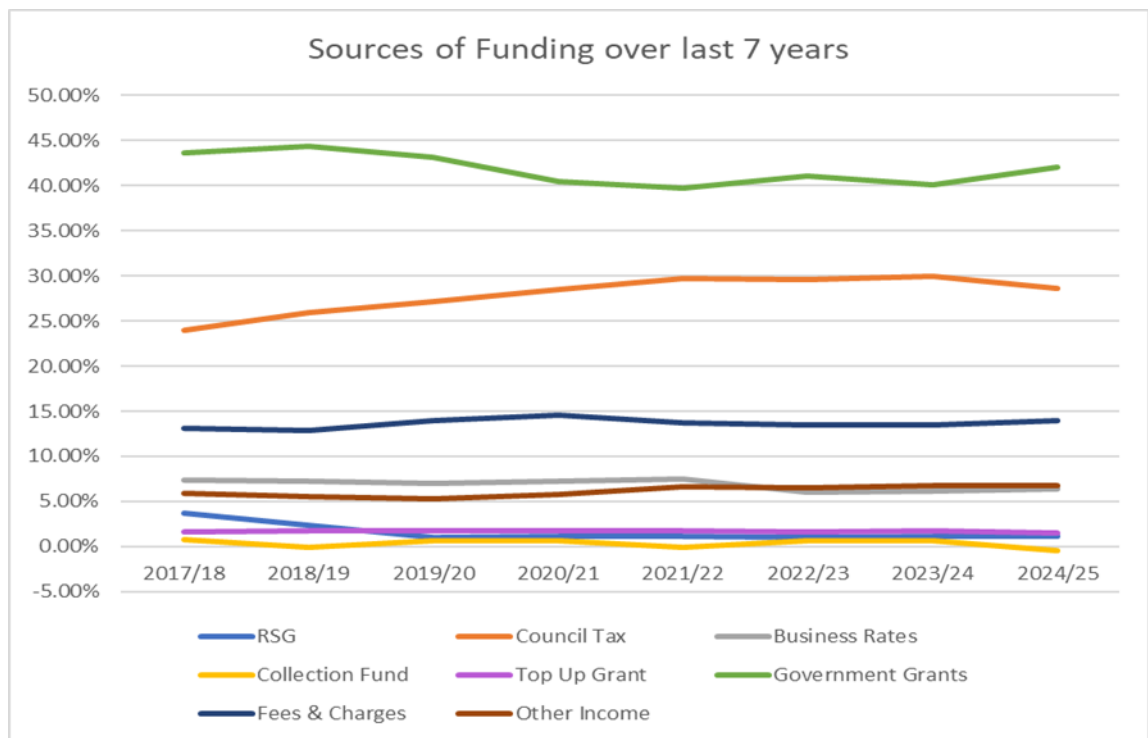
Category of Saving	2024/25 £	2025/26 £	2026/27 £
Resources	3,423,000	2,800,000	0
Council wide	22,977,600	0	0
<b>Total Reduce Cost Savings</b>	<b>39,509,965</b>	<b>4,078,863</b>	<b>112,050</b>
<b>Target Operating Model</b>			
Health & Wellbeing	15,000	15,000	0
People	610,000	0	0
Place	100,000	2,000,000	0
Resources	0	120,000	0
Council wide	0	0	0
<b>Total Target Operating Model Savings</b>	<b>725,000</b>	<b>2,135,000</b>	<b>0</b>
<b>Manage Demand</b>			
Health & Wellbeing	200,000	-200,000	0
People	6,273,636	630,000	110,000
Place	300,000	0	0
Resources	0	0	0
Council wide	0	0	0
<b>Total Manage Demand Savings</b>	<b>6,773,636</b>	<b>430,000</b>	<b>110,000</b>
<b>Charge More</b>			
Health & Wellbeing	0	0	0
People	0	0	0
Place	20,000	0	0
Resources	0	0	0
Council wide	2,000,000	0	0
<b>Total Charge More Savings</b>	<b>2,020,000</b>	<b>0</b>	<b>0</b>
<b>New Income</b>			
Health & Wellbeing	0	0	0
People	3,800,000	0	0
Place	4,892,720	1,622,000	20,000
Resources	0	0	0
Council wide	0	0	0
<b>Total New Income Savings</b>	<b>8,692,720</b>	<b>1,622,000</b>	<b>20,000</b>
<b>Stop/Cease Services</b>			
Health & Wellbeing	0	0	0
People	1,600,000	400,000	-400,000
Place	3,128,650	3,047,010	50,000
Resources	0	0	0
Council wide	30,000	0	0
<b>Total Stop/Cease Services Savings</b>	<b>4,758,650</b>	<b>3,447,010</b>	<b>-350,000</b>
<b>Total Savings Proposals</b>	<b>62,479,971</b>	<b>11,712,873</b>	<b>-107,950</b>

4.2. The need to make these changes is driven by the following factors:

- Low/no change to funding levels in real terms of the last 7 years, despite rebalancing between funding sources. (This is illustrated in the 'Sources of Funding' chart.)
- Increased population, particularly amongst older adults
- Increasing demand for services such as
  - o children needing support or protection, and
  - o adults with learning difficulties or autism;

- older adults who often have care needs more complex than in the pre-COVID period
- demand for Temporary Accommodation and housing support
- cost of living support
- the challenge of delivering services across a large rural area with a sparse population

4.3. This means that the demand for services remains unaligned to, but now significantly outstrips, the resources available to the council within the current operating model. The proposals are therefore to reduce the overall size and scope of the council, and to secure efficiency and transformational improvements to continue to provide services to the greatest extent possible within the available resources.



4.4. The local government financial settlement for 2024/25 includes increased funding of 7.5%, as illustrated in the table below. However, of this, it is assumed that 5% comes via Council Tax increases and 1% from the increase in the council taxbase. The social care grant was increased between the provisional and the final settlement, in response to concerns over the level of social care funding.

Core Spending Power by component (£m)	2023/24	2024/25
Revenue Support Grant	2,729	3,024
Baseline Funding Levels	12,943	13,538
Under indexation	2,205	2,581
Council tax	33,984	36,071
Improved Better Care Fund	2,140	2,140
Social Care Grant	3,852	5,044
Discharge Fund	300	500
Market Sustainability Improvement Fund	562	1,050
New Homes Bonus	291	291
Rural Services Delivery Grant	95	110
Rolled in grants	480	-
Funding Guarantee	133	269
Services Grant	483	87
<b>TOTAL</b>	<b>60,197</b>	<b>64,705</b>

4.5. The local impact of the settlement is set out in detail in the attached MTFs, and summarised in the table below. Resources and expenditure include spending reduction plans, which are presented in more detail in the MTFs itself. The table shows that even after the planned spending reductions in 2024/25, there will remain gaps between estimated income and expenditure in all later years.

Funding Gap	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Resources (incl savings plans)	709,472,377	701,440,571	713,053,136	724,701,655	736,702,628
Expenditure (incl savings plans)	761,650,104	767,618,070	792,499,140	814,767,190	836,743,019
<b>Gap in year</b>	<b>52,177,726</b>	<b>66,177,499</b>	<b>79,446,004</b>	<b>90,065,535</b>	<b>100,040,391</b>
<b>One off Grants &amp; Reserves:</b>					
Improved Better Care Funding	-9,896,143	-10,618,624	-10,996,201	-11,385,105	-11,785,676
New Homes Bonus - One Off	-59,790	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	-28,009,870	-28,850,166	-29,715,671	-30,607,141	-31,525,355
Market Sustainability and Fair Cost Fund	-6,097,977	0	0	0	0
Services Grant	-356,632	0	0	0	0
<b>TOTAL ONE OFF FUNDING</b>	<b>-52,177,726</b>	<b>-47,226,104</b>	<b>-48,469,186</b>	<b>-49,749,560</b>	<b>-51,068,345</b>
<b>Remaining Gap/(Surplus) to be Funded</b>	<b>0</b>	<b>18,951,395</b>	<b>30,976,818</b>	<b>40,315,976</b>	<b>48,972,046</b>
<b>Increase in Funding Gap per Year</b>	<b>0</b>	<b>18,951,395</b>	<b>12,025,423</b>	<b>9,339,157</b>	<b>8,656,071</b>

4.6. The programme of work with our delivery partner PwC, as previously agreed by Council, continues and is defined in terms of specific project proposals within an overall agreement. The specifics of the overall programme are being aligned to the 2024/25 budget proposals set out in this report, so the programme is not yet fully defined. PwC continue to provide additional technical and project delivery capacity, expertise across the local government sector, and experience of similar

engagements elsewhere all of which helps the Council to secure a way through the coming challenges.

4.7. In outline, a programme of work is emerging which may lead to further contract costs with our delivery partner PwC. Against this, cashable benefits would be required to exceed this value. Such work would form part of the routine reporting to Cabinet on the financial performance of the authority. The proposed framework for this is described below and in Appendix 1 (section 4).

- All engagement with PwC is initially discussed and agreed between the Executive Management Team and Cabinet.
- The cost of any specific engagement with PwC is capped below the value of the direct and recurring financial benefit delivered within 12 months of engagement (for example, a proposal to deliver £1m saving every year, so £20m over 20 years, will be capped at investment of less than £1m in year 1)
- Given the scale of the savings plan for 2024/25 (i.e. £62m) the overall level of investment with PwC will be further capped to a proportion of the £62m target. It is proposed that this cap is set at 10% of the benefit (therefore capped at £6.2m) to balance flexibility and control.

4.8. To maximise the pace of delivery and to support the delivery of a balanced budget position in 2024/25, a formal delegation is recommended to be made such that the Chief Finance Officer in consultation with the Portfolio Holder – Finance, Corporate Resources and Communities can engage PwC on specific programmes of work within the framework set out above.

## **Reserves**

4.9. For several years across the COVID period and thereafter it was possible to secure Council services in the face of increasing demand through the use and application of the additional resources provided by government during the pandemic. Those sources of funding have now ceased, but several factors attributable to the pandemic continue to affect the care needs of both older adults and families & children.

4.10. Initially, the Council has taken the approach of continuing to support service delivery using reserves, which has enabled a range of improvements in efficiency. This can be achieved in several ways but always entails a risk – that one-off resources are applied to ongoing operational pressures.

4.11. Despite the significant progress made in repositioning budgets during 2023/24, and the delivery of an unprecedented level of savings (£41m) within the year it remains necessary, in the face of ongoing demand pressures, to require that services continue to seek greater levels of efficiency, but also now go further and reduce services in a number of areas (set out in more detail in section 11 of the MTFS (attached appendix 1).

4.12. This is made more urgent as the level of overall reserves has been reduced at an accelerating pace, and so the spending reductions in 2024/25 must both reduce service delivery to more sustainable levels of cost, but at the same time set aside

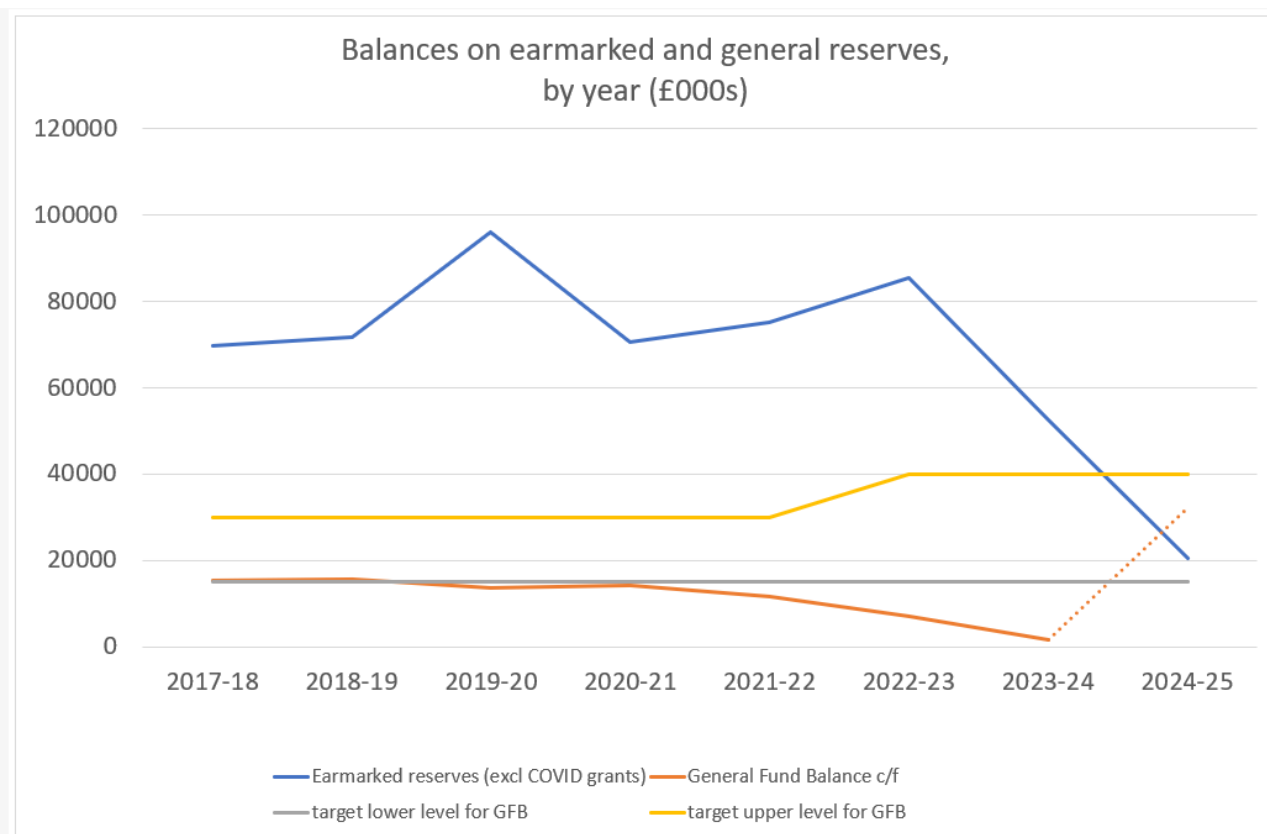
funds to replenish reserves. This has been planned for within successive MTFS reports approved by Council.

4.13. The level of reserves is a key indicator of the overall financial health of the Council. The level of reserves in recent years is shown in the chart below. It shows that:

- Earmarked reserves (which also include an average of £8m-£10m of balances held by Schools under delegation) have fallen from around £80m to the current position of £20m in 2024/25.
- Unearmarked reserves (the General Fund Balance (GFB) should be retained above a lower level of c£15m, and up to an upper level c£40m (in the earlier part of the period, generally higher balances meant that this could be held at a lower level)
- Currently, it is anticipated that the GFB could fall below £5m at 31 March 2024. The attached MTFS proposals include budgeted contributions which will take the overall balance to at least £32m from 1 April 2024. This is closer to target levels. Assessed risks are set out in the attached MTFS as £47m gross, summarised as below. Provision at £30m is based on the probability of risks materialising as being 60%. (Ideally, provision would therefore be at c £47m.)
  - o Under delivery of spending reductions – risk @ £22m
  - o Interventions by regulators – risk @ 3 x £5m or £15m
  - o Other base budget pressures – risk @ £10m
- Provision for the potential costs of staff redundancies, which can be significant, is intended to be met from capital receipts (which are permitted to be used for this purpose) and are therefore excluded from the calculation of risk for the general fund balance.

4.14. The chart below shows the planned contribution to reserves in 2024/25 (dotted line).





## 5. Risk Assessment and Opportunities Appraisal

- 5.1. The finances of the Council are complex and volatile. To manage financial risk requires a consistent and robust approach from Members, partners and officers alike. The MTFS identifies and manages a range of risks as set out in the attached appendix.
- 5.2. Cabinet should be aware that the attached MTFS and budget report include some measures which are already covered within delegations to officers and as such can be implemented without further member or public involvement, reducing risks associated with deployment. Other proposals require policy decisions and so, in the proper manner, will be brought back to Members 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.
- 5.3. Risk table

<i>Risk</i>	<i>Mitigation</i>
Spending reduction plans are not implemented sufficiently quickly to ensure a balanced budget position is held through the year	Spending reduction plans to be in place in all key areas ahead of 1 April 2024. Engagement of delivery partner PwC to provide capacity and capability in delivery. Monthly monitoring to ensure that all budget pressures (i.e. delivery of savings, anticipated pressures and any overspend at all) are flagged and managed, either locally or corporately.

	Increased visibility of pay and 3 <sup>rd</sup> party spending, with peer check and challenge and accountability to Members.
Unanticipated pressures outside budget assumptions emerge	Section 25 Assurance around robustness of estimates and adequacy of reserves. Retention, and where possible increase, of the uncommitted General Fund Balance as a 'fund of last resort'. Application of any reserves only if all other solutions have been exhausted.
Adequacy of capital receipts to fund redundancy and restructuring costs	Planning in place by 1 April to ensure sufficient pipeline of capital receipts to be secured (£30m-£40m); overprogramming of capital receipts pipeline to mitigate delays in delivery.
Inconsistencies in planning arising from a condensed planning period (Jan-Feb, not Sept-Dec).	Overprogramming; enhanced spending visibility; wider ownership of spending reduction proposals, engagement of PwC to support governance processes.

## 6. Financial Implications

6.1. The MTFs sets out the financial implications for the local authority over the medium term. These include:

- a) Spending reductions of £56m (recurrent) and demand mitigations of £6m (ongoing)
- b) Financial implications of resizing the organisation, where this involves staff severance packages in line with Council policy, will need funding to be accounted for within delivery programmes.
- c) Where funding reductions and/or resizing of the workforce will impact on service delivery and performance measures and engagement of the delivery partner
- d) An assessment of the adequacy of reserves based on a risk assessment of the local authority's wider financial envelope, delivery plan and in-year monitoring.
- e) Capital expenditure on the approved programme of £385m (incl HRA – appendix 2 of the MTFs, table 6.1)
- f) Proposed capital expenditure on the priority capital schemes outside the approved programme is estimated as a further £239m, although those figures can only be estimates at this time (appendix 2 of the MTFs, table 8.1). Values for the NWRR are not yet clear, and will not be until the application proceeds to full Dept for Transport business case. However, it is possible to estimate costs under different scenarios, and these are included in MTFs appendix 2 section 8.

## 7. Climate Change Appraisal

7.1. Climate action and carbon reduction are integral to all aspects of the Shropshire Plan:

**Healthy People** – Extreme weather associated with the climate crisis can adversely affect vulnerable residents and service users disproportionately. This could drive significant future growth in the demand for social care services as well as impacting on the physical and mental health and wellbeing of staff.

**Healthy Economy** – The recent energy crisis illustrates potential impacts on the Shropshire economy from the climate crisis. There are, however, significant

opportunities for growth and skilled employment in new technologies, renewable energy and the rural economy.

**Healthy Environment** – The climate crisis has very serious implications for biodiversity and food production. As a large rural area, however, Shropshire is also in an excellent position to take positive action to help mitigate these effects.

**Healthy Organisation** – Extreme weather associated with the climate crisis could disrupt delivery of Council services through damage to physical infrastructure such as roads and power infrastructure, and through impacts on staff health and wellbeing. Demand for services and service delivery costs such as highway maintenance are likely to increase.

- 7.2. In taking the steps towards financial sustainability to enable delivery of The Shropshire Plan within a reduced financial envelope, it is important that decisions consider information about future costs and risks, where possible, through an approach which explicitly considers lifetime carbon impacts and future climate vulnerability. The future costs of addressing climate change impacts are expected to exceed that of the investment needed to reduce carbon emissions and improve climate resilience, but this may not be affordable within the immediate financial envelope without external investment.
- 7.3. Some of the proposed service changes to deliver financial sustainability may also reduce carbon emissions and improve climate resilience. Moving towards a zero-carbon supply chain has the potential to reduce costs, other studies suggesting this could be in the region of 5%. Similarly, many carbon reduction and climate resilience projects and measures also have the potential to generate revenue savings and generate 'green' economic growth in the Shropshire economy.

## 8. Background

- 8.1. As shown by the extensive media attention in recent months, Local Government is facing ongoing and growing financial challenges. Several Councils have either issued a s114 report or warned that they might have to do so soon. The costs of delivering adult social care have risen due to inflation and more complex cases; the costs of children's social care have increased as the care market has become more expensive; the costs of Home to School Transport have gone up; and the costs of meeting housing needs, especially for homelessness and temporary accommodation, have also grown across the country.
- 8.2. Shropshire Council is also affected by these pressures. As shown in the current financial year, Shropshire is experiencing an overspend that cannot be fully mitigated. This overspend is mainly caused by the cost pressure mentioned above, similar to the national cost pressures on all upper-tier Councils. The difference for Shropshire is that the Council has much lower reserves than other comparable Councils. The overspend will reduce the general fund level below the minimum level set and the main goal for the Medium Term Financial Strategy for 2023/24. Difficult and unpalatable decisions will need to be taken to achieve financial resilience in the medium term for the Council, to prevent a s114 notice from being issued and to ensure that there are enough levels of general fund reserves to allow more financial sustainability to deliver The Shropshire Plan.
- 8.3. In this context, the MTFs sets out the financial challenges and opportunities for Shropshire Council over the next four years. It identifies the key drivers of

expenditure and income, the funding gaps and pressures, the strategic priorities and objectives, and the proposed actions and solutions to achieve a balanced budget and a sustainable financial position. The MTFS also considers the risks and uncertainties that may affect the Council's financial planning and performance, such as the underlying financial implications of residual macro changes such as Covid-19, Brexit, climate change, and legislative changes. The MTFS is based on a set of assumptions and projections that are regularly reviewed and updated to reflect the changing environment and circumstances. The MTFS is not a fixed document, but a dynamic and flexible tool that enables the Council to monitor, review, and adjust its financial plans in response to internal and external factors.

- 8.4. The MTFS is informed by the wider local government picture, which reflects the sufficiency of funding available to councils across the country. The final local government settlement, incorporating the recent announcement of £600m additional funding for local government have both been considered and make little difference to the plans set out in December, which themselves have continued to evolve. Due to the underlying pressures in demand across social care, inflation and wider implications of the cost of living crisis, the council's financial position has worsened, and these announcements have done nothing to reverse this. As a result, the Council's financial outlook for 2024/25 is bleak and difficult decisions need to be taken to ensure the council remains within an incredibly tight financial envelope. No element of service delivery will remain untouched as a complete remodelling of the interventions the Council can afford to make is undertaken to ensure, as far as possible, the priorities and strategic objectives as set out in the Shropshire Plan are delivered to the greatest extent possible.

## 9. Additional Information

- 9.1. The attached MTFS includes details on:-

- a) Public budget consultation results
- b) The 'S25 declaration' made by the CFO relating to the robustness of the estimates and the adequacy of the reserves
- c) Outcomes of the 2024/25 alternative budget process (submission of alternative budgets by the opposition groups)
- d) Delivery of spending reductions and associated risk management

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

[Financial Strategy 2024/25 - 2028/29 - Cabinet, 18th October 2023](#)

[Financial Strategy 2024/25 - 2028/29 - Cabinet, 13 December 2023](#)

---

**Local Member:** All

**Appendices**

Appendix 1: Medium Term Financial Strategy 2024/25 – 2028/29

Appendix 2: Capital Strategy 2023/24 – 2028/29

---