

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 21st November 2011
CONTACT OFFICERS: Julie Evans, Strategic Director of Resources & Regeneration
WARD(S): All
PORTFOLIO: Finance and Strategy – Councillor Anderson

PART I **KEY DECISION**

Draft Budget Strategy and Medium Term Financial Plan 2012/13 to 2015/16

1 Purpose of Report

This report sets out the latest projections of the Council's Revenue and Capital Budgets, for the period 2012/2013 to 2015/16, for consideration by Scrutiny members. It considers the main assumptions driving the Council's Medium Term Financial Plan; and seeks to provide a sustainable financial platform addressing all known current requirements across the medium term. The paper proposes (as at Appendices A), a strategy for securing savings requirements whilst maintaining the focus on protection for front line services wherever possible.

2 Recommendations

The Cabinet is requested to resolve:

- a) That the Council's current projected Revenue Budget for 2012/13 to 2015/16 be noted.
- b) That updated assumptions underlying the Medium Term Financial Plan be noted.
- c) That the overarching savings strategy and targets as set out on Appendix A to the report be approved and that additional proposals be further developed to meet remaining budget deficit.
- d) That the specific proposals set out in section 5.15 of the Report be agreed and that Officers be requested to implement them with immediate effect where possible.

3 Community Strategy Implications

The Revenue and Capital budgets are the Council's financial plans for the forthcoming year. As such, the budgets will allocate resources to enable the delivery of the Council's Community Strategy Priorities through the individual departmental and service plans.

4 **Other Implications**

Financial Implications

4.1 These are contained within the body of the report summarised in table 1 below.

Slough BC Medium Term Financial Model - 2010/11 to 2015/16						
	Latest position post Finance Settlement					
	Provisional Settlement			CSR 2010		
	10/11	11/12	12/13	13/14	14/15	15/16
<u>Details</u>	£'000	£'000	£'000	£'000	£'000	£'000
Opening Budget	102,395	103,979	105,107	100,719	101,688	103,645
Total Inflation	1,200	1,150	1,500	2,400	2,200	2,000
Total Previously Agreed Growth *	5,875	2,538	1,232	(211)	22	0
Total Previously Agreed Savings *	(4,051)	(4,423)	(1,835)	(200)	0	0
Total New Savings Mitigating Cuts to Public Sector Spending **	0	(8,011)	(6,044)	(3,830)	0	0
* Shown in Appendix D						
** shown in appendix A						
New Growth (TBA)		50				
LAC permanent allocation of reserve provision			645			
Carbon Emissions Levy			380			
Play strategy			85			
<u>Expected income from specific grant schemes now rolled in to FG</u>						
TOTAL GRANT IMPACT		10,674	133	56	56	56
Contingency - Economic Risk		500	0	500	0	0
Total Pensions Adjustments	0	475	0	500	0	0
Capital Programme Adjustments	(1,440)	(508)	0	750	0	0
Specific Grant & Transfer Adjustments	0	0	964	206	154	154
Council Tax Freeze Grant	0	(1,187)	(1,187)	1,187	0	0
New Homes Bonus (estimate)	0	(130)	(260)	(390)	(475)	(575)
BUDGET REQUIREMENT	103,979	105,107	100,719	101,688	103,645	105,280
SPECIFIC GRANTS ROLLING INTO FORMULA GRANT		5,524	5,476	5,421	5,367	5,313
FORMULA GRANT	56,756	51,723	46,647	46,181	46,181	46,181
COUNCIL TAX REQUIREMENT	47,223	47,860	47,860	49,057	50,283	51,540

TOTAL ESTIMATED FUNDING AVAILABLE	103,979	105,107	99,983	100,658	101,831	103,034
REMAINING BUDGET GAP	0	0	(736)	(1,029)	(1,814)	(2,246)
Annual savings required		(12,434)	(8,615)	(5,059)	(1,814)	(2,246)
Cumulative impact of cuts to public spending secured		(8,011)	(14,055)	(17,885)	(17,885)	(17,885)

Human Rights Act & Other Legal Implications

- 4.2 The Council has various legal responsibilities around financial matters but, of primary importance: the Council must not plan to spend more than the resources it has available to it in any one year – the Council must set a ‘balanced budget’.
- 4.3 The Medium Term Financial Plan (MTFP) presents the projected financial position of the Council for 2012/13 to 2015/16; and includes:
- Recommended growth and savings options identified to date, to be considered by Members; and
 - A number of key assumptions (summarised below), alongside
 - Highlighted key issues (summarised below)
- 4.4 The 2003 Local Government Bill places a duty on the Council to consider the robustness of budget estimates, the adequacy of reserves and the affordability of its capital programme in preparing its budget for the year.
- 4.5 The cuts to public sector spending apply across the public sector as a whole and place considerable burden on local authorities. Members have requested every effort be made to minimise the impact on the end users of front line operational services, this document sets out the approach to meeting the known savings requirements of the recent CSR, however it does not take into account the implications of the embryonic proposals set out in the localism bill pending further clarity.
- 4.6 There are no other legal or Human Rights Act implications.

Workforce

- 4.7 If agreed, the savings options to be considered will involve the transformation of some services and different delivery methods for others. Every effort will be made to ensure the Council’s contribution to the local economy as major employer will be maintained and where possible enhanced. Further, Member’s remain committed to protecting the interest and welfare of both existing and future staff. Every effort will be made to implement savings measures in a way that reflects that commitment. Compulsory redundancies will only be considered as a last resort. The Council will ensure that HR policies are applied to minimise the impact of decisions for all affected staff by seeking via a combination of voluntary severance or early retirement arrangements, applying innovative Workforce Development Strategies and adopting a pro- active approach to securing redeployment opportunities wherever possible.

5. Supporting Information

The current financial climate

- 5.1 As members will be aware following the change of government in May 2010, the coalition government implemented significant cuts to public sector spending. These cuts are in addition to the efficiency requirements the council already had in place (included on table 1 as “previously agreed savings” and “previously agreed growth”). Further, any new investment in our communities must be contained within the constraints of this severely restricted cash envelope. The cumulative effect of

the impact of the financial pressures affecting the council is summarised in table 2 below.

Table 2

All Years Summary - Cumulative Impact	£000's
Cumulative App A's	(17,885)
Savings for period in-year cuts 2010-11	(2,566)
Cumulative Impact Cuts to Public Spending	(20,451)
Previously agreed savings	(6,458)
Total Demand for Savings/Efficiencies	(26,909)
Allocated for Growth	3,581
REDUCTION IN SPENDING POWER (CUTS)	(23,328)

- 5.2 Some further pressures are anticipated in future years as a result of the proposals currently under consultation, for example 10% reduction in Council Tax Benefit funding. However, until further detail concerning the impact of these proposals is known, the Corporate Management Team have adopted a pragmatic approach to planning for major financial change by seeking to secure a sustainable financial position for the future via concentrated savings activities across the next 2 financial years to address the known issues.
- 5.3 Currently under various stages of implementation are a range of proposals affecting future financial stability for Local Authorities including proposals relating to Education and Schools buildings, Council Tax Benefit, Fraud and Benefits Investigations, The transfer of responsibilities for Public Health and a single universal credit benefit system.
- 5.4 Members are asked to consider the timely implementation of the additional savings bringing the total identified target savings to £9874 across the next 2 financial years, listed at Appendix A, in order that full-year savings will be generated from 1 April 2012.
- 5.5 The scale of the cost reductions required alongside Member's explicit objective to afford the greatest protection to our front line services, drives the cross cutting corporate approach to savings set out on appendices A. The previously agreed workforce planning exercise may provide a window of opportunity, requiring quick decision, that enables efficiency savings to be achieved. Any permanent changes arising as a result of decisions taken by the Leader and Chief Executive would be reported to Members at the next available opportunity.
- 5.6 The primary focus of the second phase (in place by 1st April 2012) of the anticipated savings is, as previously stated focussed in the main away from front line services and where pressures inevitably fall to such services, re-shaping the service to deliver the same or greater benefits to end users more efficiently will be the primary objective.
- 5.7 Officers are currently developing options based on the above. The projected overall shortfall across the medium term period covered in the MTFS at table 1 is £17.734million. Previously agreed savings and the savings proposals presented on appendix A provide opportunities of £11.909million, leaving a current deficit across the period of £5.825million. The intention is to explore further opportunities and

present options for consideration by members before the end of calendar year. The target figure is based on current projections and may reduce or increase as a result of a number of variables.

- 5.8 Work will commence, examining many of the possibilities outlined above, to meet the significant challenges illustrated on table 1 above.

The Revenue Budget – Latest Projections

- 5.9 The latest Revenue Budget projections, arising from SBC's current Medium Term Financial Plan for 2011/12 to 2014/15, are set out overleaf. Whilst reviewing these figures, several key assumptions must be noted:

- The Council's pay and prices inflationary uplifts will be managed in accordance with the coalition government's expectations and policies. Service contract increases will be based on the Consumer Price Index (CPI). With the following additional elements :
 - Members have implemented the £250 pay increase to low paid staff This was originally a provision within Government proposals but not one they were able to deliver directly.
 - Inflation is expected to continue to rise above government expectations and an adjustment has been made to reflect this and accommodated within the financial model set out in table 1.
- The 2011 /12 Revenue Budget is expected to provide opportunities within the year. Early implementation of savings proposals will drive some one off gains in year. It is proposed that any such opportunities are maximised and allocated on a 50/50 basis to the following key priority areas:
 - i) Continuing to build on improving the protection of the general fund balances (mitigating further the residual risk identified by the District Auditor)
 - ii) Enabling investment in capacity needed to drive the changes required, where a demonstrable invest to save business case is provided and agreed.
- The current approach to managing in year spend must be maintained as overspends will have a consequent impact on the level of cash reserves and also the budget requirement for the coming year.
- The Collection Fund is assumed to be in balance across all three years. The collection fund is the fund administered by the Council into which all council taxes and business rates are paid; and from which payments are made to the General Funds of precepting authorities and to the national business rate pool. It is therefore assumed that the Council obtains all local taxation due.
- Income from council tax is assumed to be static in 2011/12 and 2012/13, based on the coalition government's stated ambitions to freeze council tax across these two years however it should be noted government funding for 2012/2013 is a one off grant that will be withdrawn after 12 months.

Thereafter, the MTFP assumes static levels of increase in council tax with no account being taken of the potential disproportional increase in inflation. No assumption has been made for the increase in new properties being built in SBC, which would impact on the level of council tax income generated. Articles in the national press suggest that house-building and mortgage lending rates are currently at a significant low.

In conclusion, primarily related to the funding assumptions noted above, there remains a substantial funding gap for 2012/13 to 2015/16 that will need to be managed.

Reducing the future funding gap – progress to date

- 5.14 In order to achieve a balanced revenue budget, in 2011/12 and beyond, it is clear that a significant amount of work will need to be undertaken by Service Areas and CMT.

Additionally, as table 1 illustrates there remains a substantial funding gap for 2012/13 to 2015/15 that will need to be managed.

- 5.15 The Council currently has proposals for savings for £9.874m million as set out on Appendix A and securing these is critical to secure financial stability in future years.

A suite of proposed elements of cross cutting corporate projects securing workforce based savings with no redundancy implications are summarised below. At member's request, these proposals have already been discussed with Trade Unions. . Once agreed, the proposals will be subject to any appropriate formal consultation prior to any implementation.

- Reduction in Agency spend £570K
- Increase in part time working £337K
- Investing in a healthy workforce £125k
- Reduction in external Bailiff costs £220k

Growth

- 5.16 To date All managers and directors have been made aware that only essential growth (e.g. contractual, legislative and demand requirements) can be entertained and are likely to be funded by finding compensatory savings. Further, all savings proposals put forward must be realistic, achievable and professionally defensible.

Capital Programme

- 5.17 Members have agreed further explore the potential benefits of a LABV . This will affect the profiling of the capital financing requirements in the period up to formal decision by members. This will be built into the capital financing assumptions and may provide a short-term financial gain.
- 5.18 Members may recall that the total capital spend for 2010/2011 was £42.414m. Considerable progress has been made in delivering long standing commitments, this has had a consequent effect on the reduction in reserves set aside expressly for the purpose of financing such projects. Cabinet agreed on 12th September 2011 that a revised capital programme enabling maximum flexibility for the negotiations

around the LABV would be prepared by the Asset Management Group, the outcome of this exercise will form the basis of a recommended 'revised' position across the capital programme over the coming years for consideration by members.

- 5.19 The overall HRA capital programme is £25.357m for the period 2012/13 to 2016/17. The programmed spend for 2011/12 is £7.882m.
- 5.20 In April 2012 the Localism Bill is proposing to introduce an alternative funding mechanism for local authority housing. Known as self-financing, the proposal replaces the current subsidy system whereby the Government determines how much each local authority can spend on its housing service with a system through which local authorities retain the totality of the rent raised and collected in return for taking on a proportion of the national housing debt. The existing and retained HRA ring-fence means that this initiative, which will see the Council borrow between an additional £120 - £140million does not directly affect the General Fund however it will add to the requirement to prudently manage the council's overall borrowing.
- 5.21 Revenue Income Optimisation (RIO) Those functions which currently trade and/or could increase trading are being reviewed for:
- In house income generating opportunity
 - Fees and charges review
 - Third party income generating opportunities.

Reserves

- 5.22 SBC's general reserves have increased as planned to £6.384m. Drawing on reserves to fund any budget gaps is a last resort and a clear and timely plan for their replenishment would need to be agreed.

Risks

- 5.23 Budgets are necessarily based on assumptions about what will happen during the next financial year; and therefore there is an inevitable risk that these assumptions might be wrong.
- 5.24 The main foreseen risk is that the proposed savings are not delivered. In an attempt to reduce this risk the budget will be closely monitored via the monthly financial management reports and updated budget information, including savings achieved, will be reported to Cabinet throughout the financial year.

6. Comments of Other Committees

- 6.1 This report will be considered by Cabinet on 21st November 2011.

7. Conclusion

- 7.1 This paper sets out the latest assessment of the Council's Revenue Budget for the years 2012/2013 to 2015/16.

8. **Appendices**

- A - Detail of £9.874m savings
- B - Detail of the additional savings identified in this iteration (12,13 and 14 on Appendix A)

Savings mitigating cuts to public sector funding								
Area of Activity	Notes	Progress	Savings Banked					
			for 2011/2012			for 2012/2013		for 2013/14
			EOI's	Other	Total	Target	Value	
			£'000	£'000	£'000	£'000	£'000	£'000
1. Reviewing the Council's approach to income generation, cash and debt management.	3 elements : Management of Old Debt, Processes to improve collection rate (both of these enable us to reduce bad debt provision). 3rd element is an invest to save project (fixed investment costs of £40k) seeking to improve our revenue generating opportunities.	Management of old debt: debt policy change to apply from 10/11 end of year accounts. Sale of old debt clarity needed. Change to processes update needed		(1,081)	(1,081)			
2. Maximising Revenue		RIO : As detailed on separate summary sheet	0	0	0	(795)	(395)	(400)
3. Service & organisational Transformation, models (operational services work from last year to secure up to 30% overall cost reduction.)	Provision made to fund repeated EOI exercise with similar assumptions as to costs, alongside phase 2 of org changes	TBC				(3,602)	(1,952)	(1,650)
4. FYE's previous years changes	areas of recurring under-spending					(600)	(600)	

Area of Activity	Notes	Progress	Savings Banked						
			for 2011/2012			for 2012/2013			for 2013/14
			EOI's £'000	Other £'000	Total £'000	Target £'000	Value £'000		£'000
5. Final stage of senior management/support services reshaping						(500)	(300)		(200)
6. Reviewing our assets. Reducing the cost of office accommodation requirements, ensuring value for money in running costs of all Council buildings.	original target not yet met, OTH site further savings and NNDR savings old children's centre					(342)	(342)		
7. Reviewing all major contracts and all commissioned services seeking a minimum 4% saving and securing a change to the basis of inflationary increases.	Includes all cross cutting corporate contracts negotiations and supplier e.g energy/utilities, telephony, catering.	Current year concluded, open book negotiation process for 11/12 savings involving changes to significant contracts underway.				(745)	(150)		(595)
8. Reducing, reshaping and changing, where possible, the way we finance our capital programme to reduce borrowing costs.	Linked to reduction in capital programme, and repackaging of existing debt.	Awaiting the outcome of the asset review/cap programme review.				(500)	(250)		(250)

Area of Activity £'000	Notes	Progress	Savings Banked						
			for 2011/2012			for 2012/2013		for 2013/14	
			EOI's £'000	Other £'000	Total £'000	Target £'000	Value £'000		£'000
9. Increase in commissioned services from the voluntary sector						(253)	(253)		
10. Anticipated savings from the set up of the transactional services centre						(1,400)	(700)		(700)
11. Closure of Wexham Nursery						(105)	(70)		(35)
12. Reduce Agency Spend						(570)	(570)		
13. Increase part-time opportunities						(337)	(337)		
14. Investing in a healthy workforce						(125)	(125)		
(3,830)			0	(1,081)	(1,081)	(9,874)	(6,044)		(3,830)

Workforce Savings

Reduction in agency spend; only engaging agency staff on 30 hour per week contract where possible. The assumptions made in the table below are taken on a prudent basis relating only to the specific agency spend on full time resources provided by our appointed managed vendor.

Broad Corporate Analyses

Annual Pertemps Spend (37 hours only)	£	6,000,000
Hours reduction 37 – 30		19%
Potential saving	£	1,140,000
Variable applied		50%
<u>Potential Ongoing Cash Saving</u>	<u>£</u>	<u>570,000.00</u>

1. Increase in part-time working at Slough Borough Council

Resources and Regeneration Only

Annual Salary costs	£ 11,114,439
Annual Churn	7.10%
Value of Churn	£ 789,125
Hours reduction	19%
Potential saving	£ 149,934
Variable applied	75%
<u>Ongoing Cash Saving</u>	<u>£ 112,450.34</u>
prudent estimate "corporate" value	<u>£ 337,351.01</u>

3. Innovative Approaches to reduce costs within existing policies

- Events to better equip staff to deal with pressure and achieve a more healthy work life balance
- Additional monitoring & Training for managers to ensure they are equipped to address short term persistent absence
- Cautious allocation of overtime payments for residual team members to cope with short term absences

The Council remains wholly committed to providing support and assistance to staff during periods of ill health and on their return to work.

<i>Supporting a healthier workforce</i>	<i>Cost</i>
Total Annual Sickness Costs	£800,000
<25 days	£630,000
19% stress	£119,700
25% "other"	£157,500
opportunity to influence	£277,200
<u>Prudent savings assumption</u> <u>(20% short term only)</u>	<u>£125,000</u>