Medium Term Financial Strategy: 2014-18

Introduction

The Medium Term Financial Strategy (MTFS) seeks to set out the background to the Council's current financial position, and estimate its future financial position, and highlight some of the key strands to deliver a balanced position over the period of the MTFS.

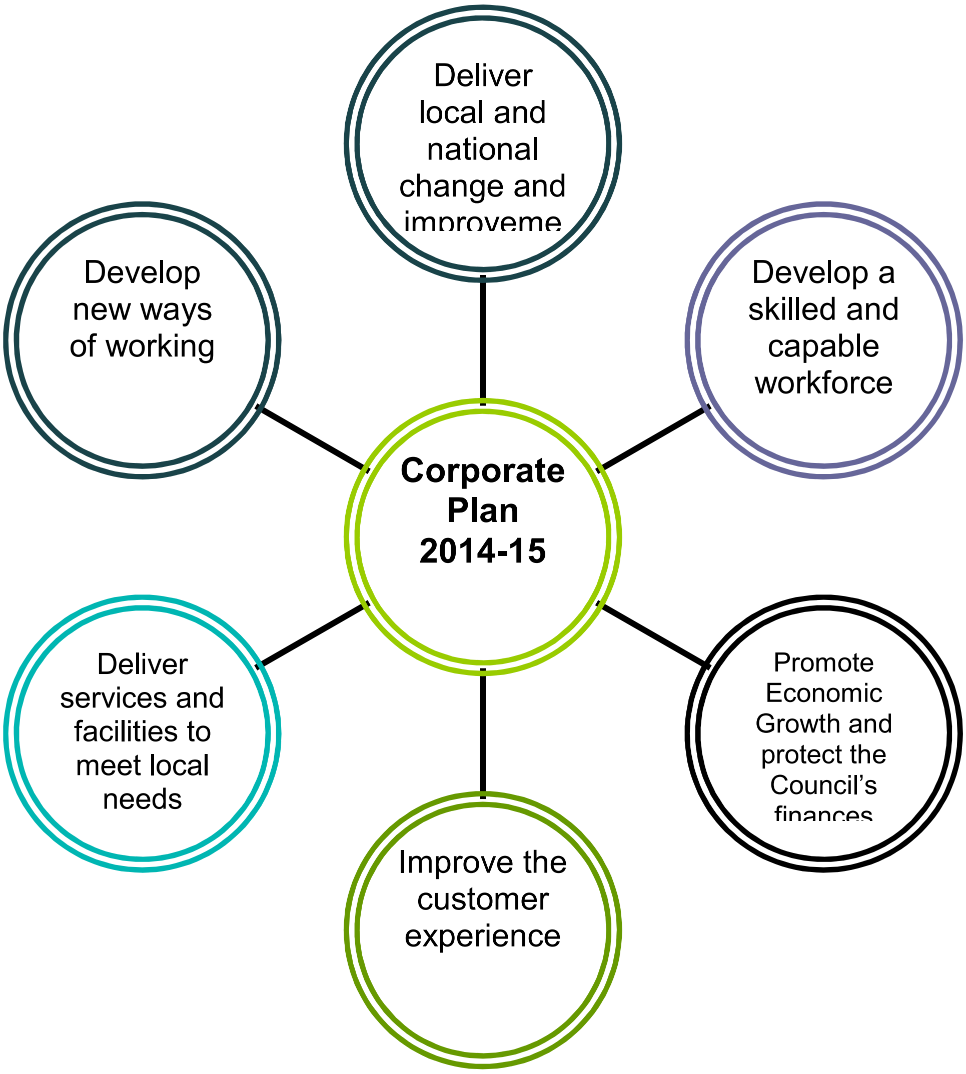
Given the scale of the ongoing reductions in Central Government spend, the Council has, and will increasingly need to, deliver public services in a more joined up, effective and efficient manner. Maintaining the current levels and delivery of existing services is unlikely to be an option to the Council in the future.

The Council is well prepared to meet the financial challenges of the coming years. It has a history of ensuring a balanced budget is delivered, as well as over recent years increasing general reserves to a sustainable level to meet the future financial challenges. The Council has successfully delivered a number of change projects in recent years, with a number of the Council's services being delivered by private sector partners. At the same time, the Council has maintained investment in its infrastructure through the approval of capital budgets to deliver a variety of programmes. Over the period of this MTFS, one of the most significant will be the building of the Curve building in the centre of Slough.

This document provides the overarching framework for the Council; the revenue budget 2014-15, Capital Strategy 2014-19 and the Treasury Management Strategy 2014-15 provide the detail behind this and are due to Cabinet and Council in February 2014.

The corporate plan provides the high level outcomes that this document seeks to deliver through the financing of the Council's activities. The draft summary themes of the corporate plan 2014/15 (to be considered by Cabinet in April 2014, but building on the 2013/14 version) are highlighted in the below:

Graph 1.1: Corporate Plan 2014-15



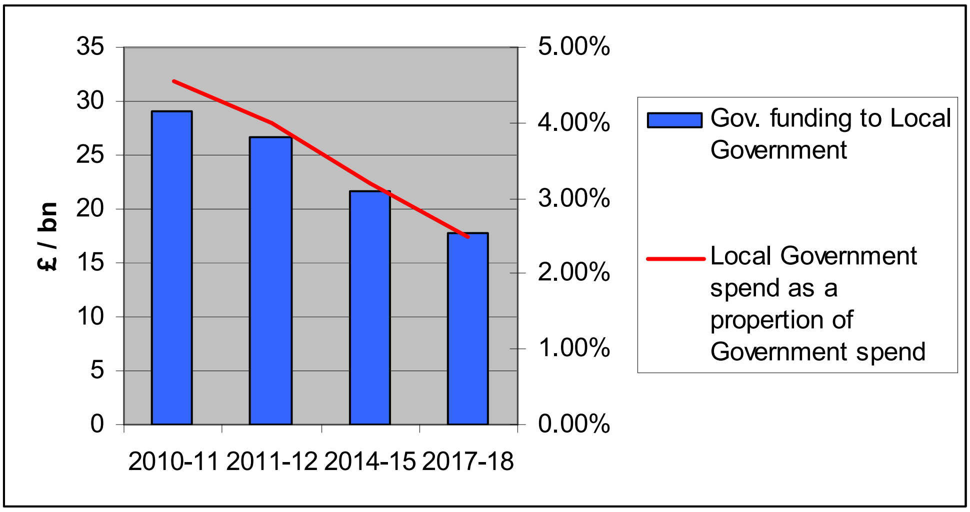
The strategy will also be informed by the Government's vision for Local Government and its funding going forward. The current coalition Government has introduced a Council Tax referendum requirement for those Councils exceeding 2% (for 2013-14). This is likely to continue under the existing coalition over the MTFS period. It is also be likely that similar levels of Government grants reductions will continue with the current Government going forward, or indeed, whichever Government is in power from 2015 onwards. Integrated health and social care is also a theme that will be strengthened upon over the period of the MTFS irrespective of the Government in power. Some of the more pronounced Government driven impacts on Council policy and finances may be across housing and these will continue to be monitored over the period of the MTFS to identify any impacts upon the Council.

The current financial situation

The Council's financial position needs to be considered by being in the middle of a long-term process of contracting public sector spending.

Since 2010, Government spending on Local Government as a whole has reduced by 25% from 2010 to 2015 as shown by the chart below.

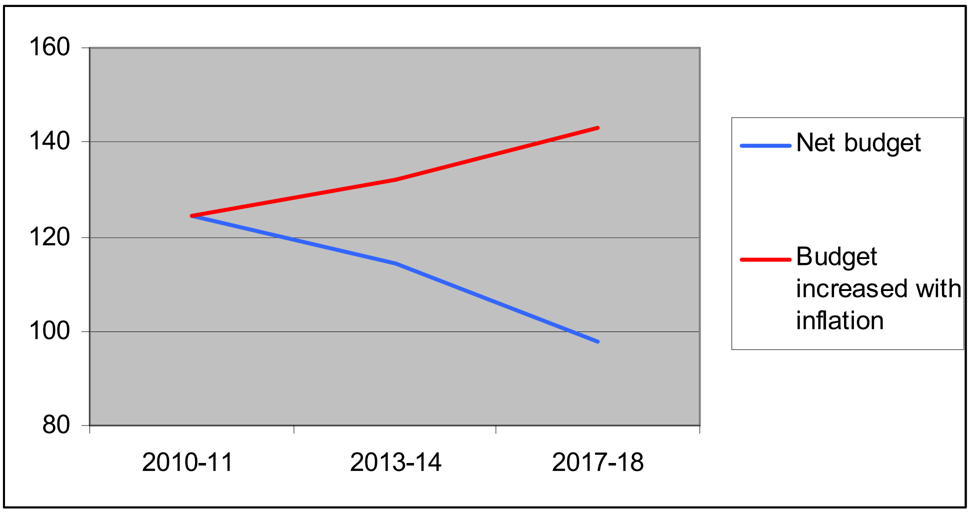
Chart 2.1: Reductions in Local Government revenue spending: 2010-18



The impact on the Council has been significant. Since 2010, the Council's overall net budget has reduced by 8% and by the end of this MTFS, it is expected to have declined by 22%. Put another way, what the Council delivered for £100 in 2010-11 will now need to be delivered for £78 in 2017-18.

Over this period, there would be a substantial gap between the Council's budget forecast against the Council's budget rising with the Bank of England's target inflation rate:

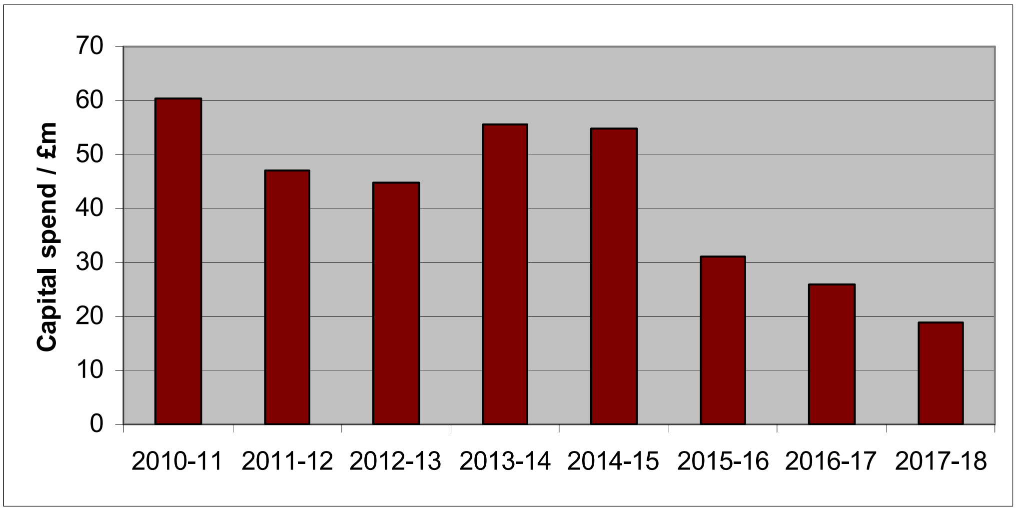
Chart 2.2: Net budget vs Inflation



Over this period of reduced expenditure, the Council has been given greater freedoms with where it spends money with the removal of many of the previously ring-fencing funding streams. Though this has not compensated the Council for the funding reductions it has faced, it has meant that the Council has more control over its future spending priorities.

The Council has maintained capital investment over the recent past and is due to continue to invest in infrastructure into the period covered by the MTFS. Through the Slough Regeneration Partnership (SRP) the Council will seek to deliver its most significant infrastructure projects outside of the Housing Revenue Account and Education schemes. The Capital Strategy 2014-19 details more the future capital plans for the Council going forward.

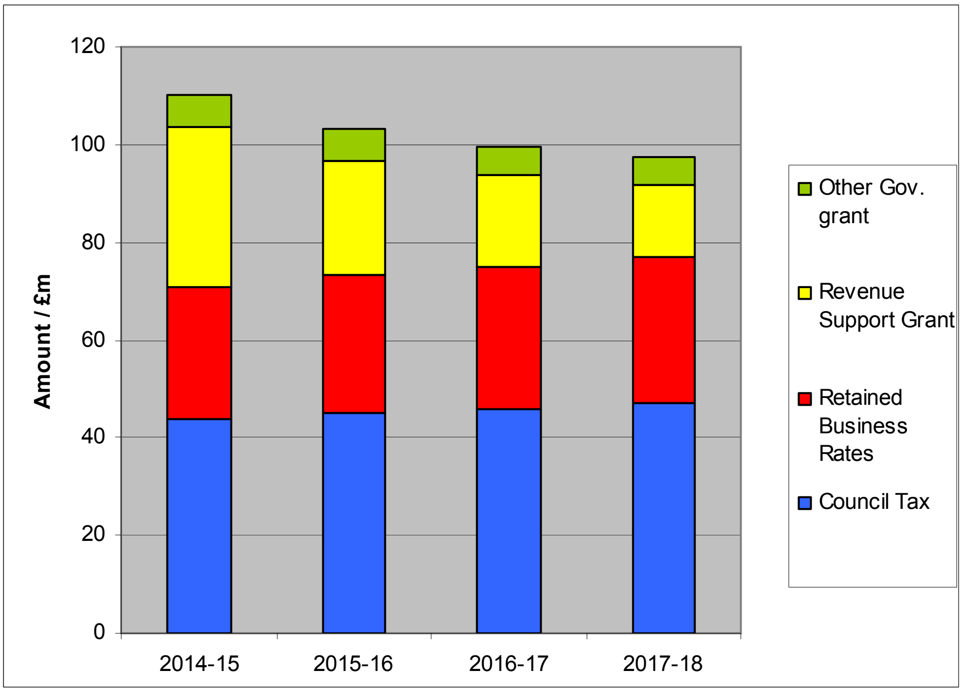
Chart 2.3: Capital expenditure & future plans



How the Council is financing & where it spends money

The Council is financed at present through three main sources of funding; Council Tax, Retained Business Rates and Government Grant. As the chart below shows, the proportion of these income strands will be changing over the period of the MTFS. It is also important to note the overall income figure is reducing significantly over this period.

Chart 2.4: Income streams 2014-18



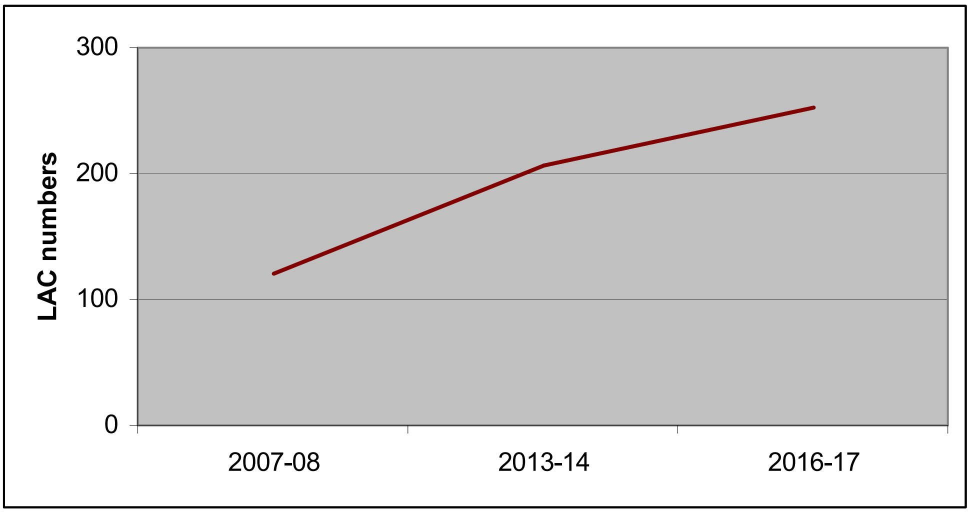
As can be seen from the above the relative importance of Council Tax and retained business rates grows over the period of the MTFS from 65% to almost 80% of the Council's income; the Council will by the end of the MTFS be much less reliant upon Government funding. To reflect this, the Council is amending its Corporate Plan to seek to improve its focus on supporting local businesses as well as attracting new businesses into the borough.

This fundamental change to how the Council is financed provides an opportunity for the Council to have greater financial clarity about the future (this should be assisted by the Government providing longer term financial settlements to Councils from 2015-16) and therefore enable greater planning for future years. It also provides an opportunity for the Council to have more control and influence over its future income streams and so reduce its reliance upon Government.

Chart 2.5. Comparable budget: 2010-18

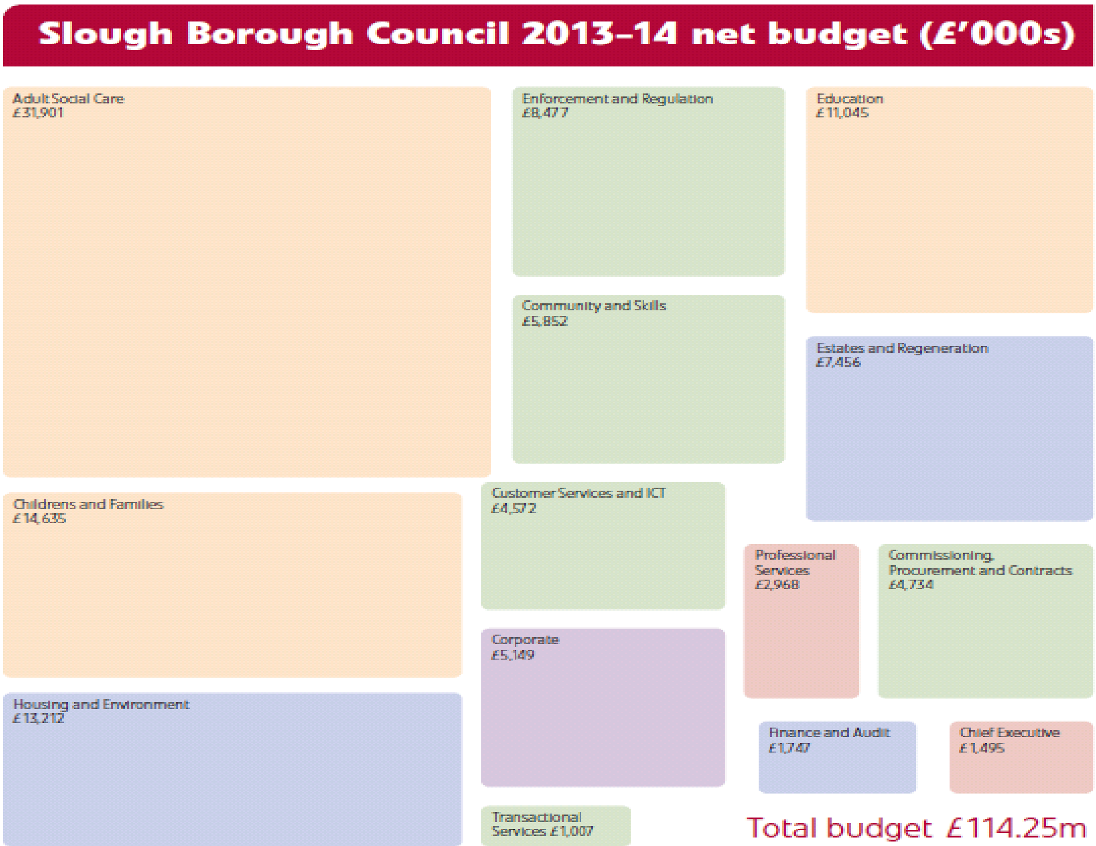
It is also clear from the above chart that the Council will have significantly reduced funds going forward. The chart below highlights the relative decrease in the comparable budgets over time from 2010 through to 2018. Over this same period, many of the demands on the Council have not gone away, and responsibilities remain for the plethora of services that the Council delivers to its taxpayers. One of key pressures that the Council faces concerns Children's Social Care and especially responding to the growing number of Looked After Children (LAC). The graph below highlights the level of growth seen to date and expected into the future. Later in the MTFS, the cost of this pressure is highlighted, but increased LAC budget alone in 2014-15 is likely to require an additional £2.5m of funding.

Graph 1.2: Looked After Children numbers



On the expenditure side of the Council's finances, the summary position for 2013-14 is below.

Chart 2.6: Net expenditure by service – 2013-14

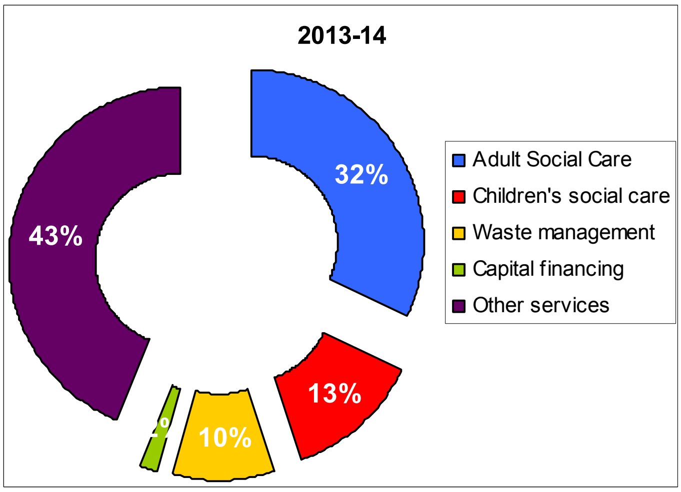


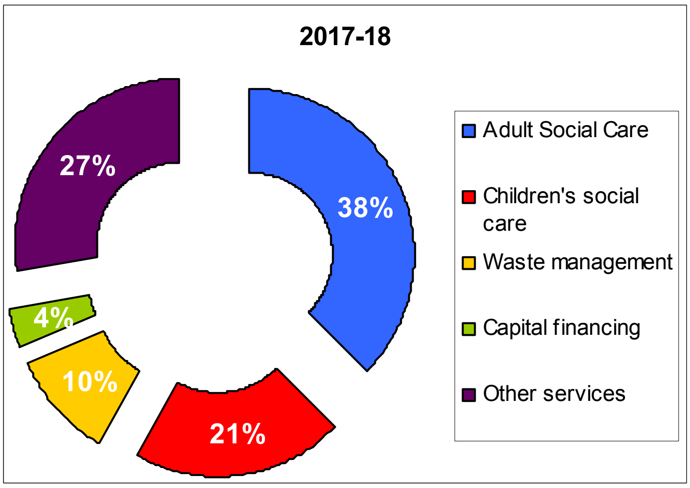
The three largest spends areas of Adult Social Care, Children's Social Care and Waste Management (the main bulk of the Housing & Environment budget) are all seeing demographically led demand growth to their budget;

Slough’s population as a whole is growing and this places pressure on its public services. The strategy further in the MTFS details some of the methods that might be utilised over the period of the MTFS, but the Council will need to ensure that these three areas of spend are as well controlled, and are delivered to their maximum efficiency over the period of the MTFS, as possible to ensure that the Council continues to provide all of its other services.

The graph below highlights that, assuming that the Children’s Social Care additional costs are approved and that costs rise by inflation in this service, that Adult Social Care holds its costs flat in cash terms, and that waste management makes savings but that costs rise by inflation, that the following scenario will occur by 2017-18:

Graph 1.3: Comparative budgets 2013 to 2018



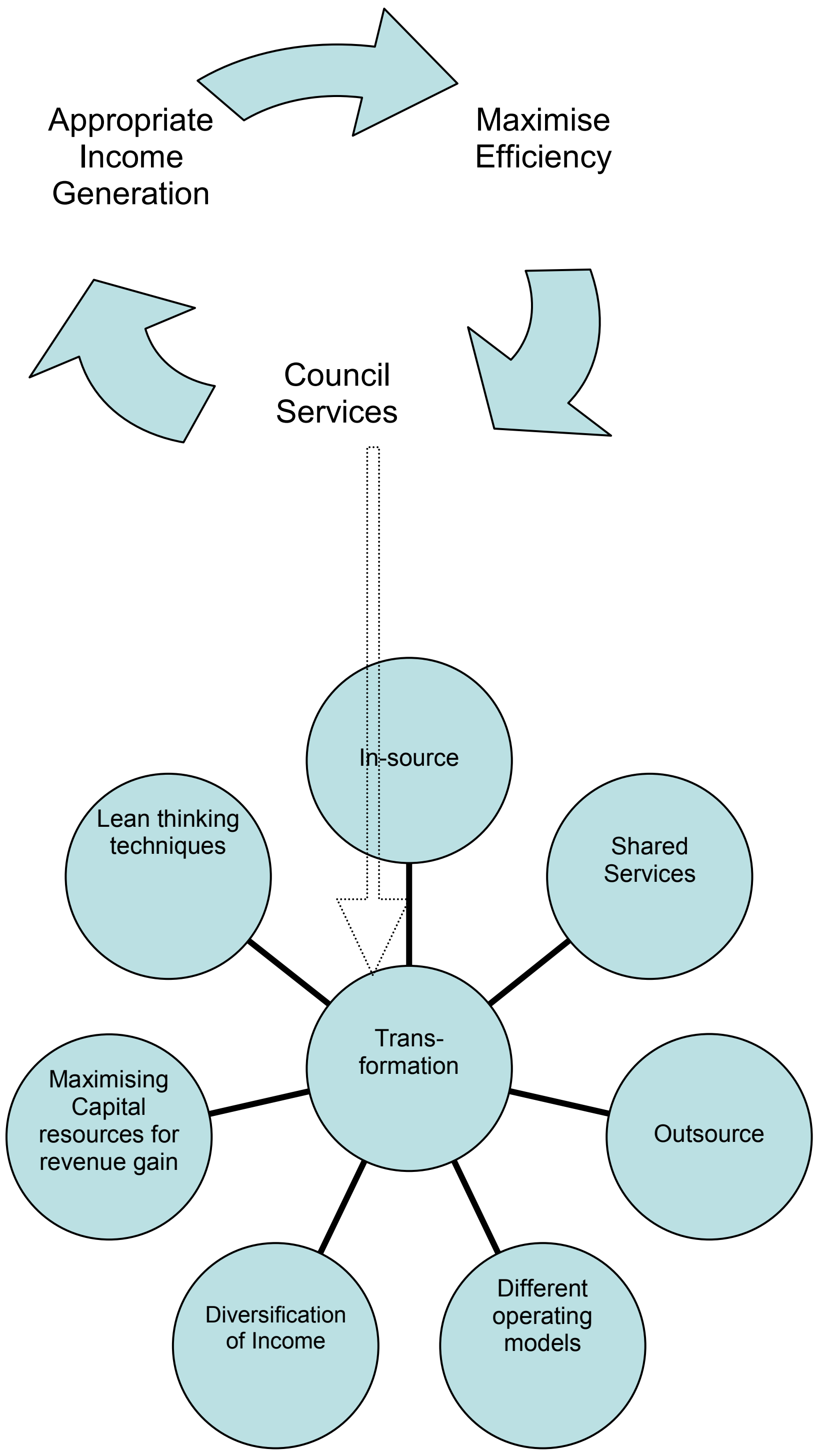


The Council's Strategy

The period of the MTFS is likely to see a significant contraction in the Council's overall spend, whilst at the same time seeing a growing population base that the Council must provide services to. To ensure that these two challenges are delivered, the Council will need to undergo a period of concentrated transformation to enable a continuation of those services that provide a universal benefit to all residents whilst at the same time deliver services for the vulnerable in society.

The first step the Council will undertake is to maximise all efficiencies from across its service areas; before any further transformation is completed, it is important that all services' comparative costs are understood and the Council is either content with these, or wishes to drive out further reductions in cost. It is also important that the Council maximises the generation of income. The two main income sources are Council Tax and Business Rates and there is a very real incentive for the Council to collect a higher percentage of overall Council Tax and Business Rates through its transactional services partner, arvato. The Council also collects income through how it sets its fees and charges and over the coming year the Council will review further where subsidies are provided through its charging regime and where it would be appropriate to adjust these subsidies for the Council Tax payer and / or for the service user.

Chart 2.7: Approach to the financial challenges



Finally, the Council will develop transformation through a variety of themes as articulated in the above. Given the scale of the financial pressures on the Council, following one theme alone is unlikely to yield all of the savings required going forward, and so the Council will need to be aware of the opportunities presented through the life of this MTFS via the themes above.

The Council has experience of delivering services using many of the themes identified. Already in the MTFS there are examples of these; for example savings through the outsourcing of some education functions to Mott McDonald or via Phase 2 transactional services. The Council is proposing to maximise income through a shift in its emphasis on treasury management activity away from short term and high liquidity holdings. There is much transformational work being undertaken within Adult Social Care to work with partners in the public and private sector to deliver lower cost services in a different way.

The key over the period of this MTFS is that the activity already identified as occurring is likely to need to move at a faster pace, supported by clear business cases driven by the outcomes for services and a strong evidence base. This change and challenge will need to be reflected across the whole of the Council in order for it to deliver a balanced budget over the life of the MTFS.

The Financial Model

Below is a summary of the financial model that drives the anticipated figures included within this document. Also included below the model are some of the key assumptions contained within the model.

Table 3.1: The MTFS financial model

No.	2013-14	Funding	2014-15	2015-16	2016-17	2017-18
1	42.29	Council Tax	43.85	44.73	45.63	46.55
2	26.23	Retained Business Rates	27.13	28.15	29.00	29.87
3	39.76	Revenue Support Grant	32.47	23.20	18.56	14.85
4	2.11	Education Services Grant	1.96	1.25	1.06	0.90
5	1.84	NHS monies to support Social Care	2.36	2.36	1.84	1.84
6	1.76	New Homes Bonus	2.01	2.61	3.21	3.21
7	0.26	Other non-ringfenced grants	1.03	0.90	0.50	0.50
8		Collection Fund	1.30			
9	114.25	**Total Budgeted income**	**112.11**	**103.21**	**99.80**	**97.72**
10		Prior year baseline	114.25	112.11	103.21	99.80
11		Base budget	3.54	2.90	2.90	2.90
12		Directorate Pressures	8.20	1.98	2.92	1.86
13		Revenue impact of Capital investment		0.60	0.60	0.00
14		Other adjustments	-1.34	-0.06		
15		Savings identified	-12.53	-14.33	-9.82	-6.84
16	0	**Net Expenditure**	**112.11**	**103.21**	**99.80**	**97.72**

n.b. Rounding errors apply. Further detail contained within the 2014-15 figures will be included within the 2014-15 Revenue Budget papers.

(1) Council Tax – assumed that the taxbase (i.e. number of properties in Slough) rises by 1% from 2015-16 onwards. Council Tax is due to be frozen in 2014-15.

(2) Retained Business Rates – assume no growth or loss in Business rates over the life of the MTFS and that they rise in line with inflation

(3) Revenue Support Grant (Government grant) – includes 2014-15 and 2015-16 figures announced by Government in December 2013. All future years to see a reduction of 20% from Government

(4) Education Services Grant (Government grant) – expect to reduce as this grant reduces with every school that converts to academy status

(5) NHS monies to support Social Care – assumed flat at the £2.4m level 2014-16. From 2015-16 there will be 'Better Care Funds' in place that will be significantly more than this sum, but that which must be pooled with NHS partners. The MTFS assumes no financial benefit from this at present until further work is completed to understand the cost / benefit implications of the Government announcements and how these will work at Slough.

(6) New Homes Bonus – assumed growth of approximately 1% in the taxbase

(7) Other non-ringfenced grants – similar assumptions through the MTFS as this relates to smaller non ringfenced grants that are announced in the finance settlement e.g. adjustments for NHB allocations retained by Government, or for Council Tax Freeze grant (which is likely to be mainstreamed in future years).

(8) Collection Fund – the balance of surplus / deficit on retained business rates and Council Tax compared to original assumptions

(10) Prior Year baseline – the previous year net budget position

(11) Base budget adjustments – increases due to non-pay and pay pressures across the Council

(12) Directorate pressures – items coming through in year. For 2014-15 the largest item is in respect of Children's Social Care at £3.3m. This is respect of additional Looked After Children placements of £2.5m and additional Children's Social Care staffing costs of £0.8m. The latest MTFS provided to Cabinet in November 2013 highlighted the growing pressures within Children's Social Care, along with the quarter 2 financial & performance report. The future year's assumptions include £0.7m for children's social care in 2015-16 along with an assumption around areas of other service pressures going forward.

(13) Impact of capital investment – the amount of revenue budget required to pay off any additional capital borrowing required in future financial years from the capital strategy.

(14) Other adjustments – in 2014-15 this assumes some financial benefit from the Single Person Discount review on Council Tax as well as some reversal of prior year's growth items

(15) Savings– the amount of savings required for each financial year

Managing Risk

Ensuring that there is appropriate risk management is key to underpinning the success of the MTFS. The Corporate Risk Register currently includes delivering the MTFS as a key risk, along with other related risks highlighted in this strategy e.g. children's social care, the delivery of the SRP and the impact of demographic changes.

Table 3.2: Corporate Risk Register

Summary of Corporate Risks	Impact	Controls
Unpredicted demographic changes present significant issues for the Council	Increased pressures on school places, housing services and social care services	Strategic review of school places as a gold project. Investment in social care services
The impact of the Comprehensive Spending Review on the Council	Continued reduced budgets and requirement to deliver services in a different way. In year risk to general reserves if overspends occur	Development of the MTFS Refresh of the corporate strategy to reflect different delivery mechanisms Regular monitoring of in year budget position. General reserves remain above the s151 officer advised level
Delivery of an ICT function that is robust and has the capacity to meet the needs of the organisation.	ICT systems not being available and impacting on service delivery of the Council. The Council misses opportunities to deliver more efficient and lower cost services and to transform the organisation	ICT provided by outside provider with appropriate longer term capital investment plans.
Adult Safeguarding	Significant impact on individual and community and undermines organisational credibility	Safeguarding Adults Board and associated business plan. Oversight of delivery via new executive Group enhanced care governance group

Impact of Welfare Reforms	Increased costs to the Council through additional claimants & pressures on other Council services. Increase of other Councils placing welfare claimants in Slough	Monitoring of claimant numbers and impact on discretionary funds Scrutiny reports
Delivery of projects through the Slough regeneration Partnership	Reputational risk through lack of delivery of identified projects. Financial risk through missed opportunity to generate capital receipts, profits and Council Tax base growth and New Homes Bonus	SBC representation on the SRP Board Approval through Cabinet of the Business Plan and associated schemes.
Business Continuity Management	Council and its contractors being unable to deliver core services in the event of an unexpected incident, potentially placing service users at risk	Up to date Business continuity plans developed by services and by core service delivery partners
Children Safeguarding	Significant impact on individual and community and undermines organisational credibility	Improvement Board and associated plan. Local Safeguarding Board and children's Young Person Partnership

The Council also needs to be prepared for other scenarios that have yet to emerge at present, or are just emerging, and it needs to consider the impact that these will have upon the Council via different scenarios.

Table 3.3: Scenarios and their financial impact

Scenario	Positive impact / £m	Negative impact / £m

Thirty one Looked After Children[1]	1.1	-1.1
Collection rates change by 1%	0.7	-0.7
Business Rates appeals		-2
Over / under delivery of savings	0.5	-3
Further Government funding reductions		-0.5
Performance on Council investments	0.5	-0.5
Total	**2.8**	**-7.8**

It is highly likely that all of the above scenarios will occur *to an extent*. For example, Looked after Children numbers are unlikely to be as forecasted or with the current average cost mix. Similarly, it is unlikely the Council will collect the exact amount of Council Tax and Business Rates as per its tax-setting forms. There are some positive as well as negative risks. The Council has seen significant in year pressures from Children's Social care in the current, 2013-14, financial year. However, as highlighted above and as will be detailed in the revenue budget papers, significant sums are being proposed to go to this service to help deal with the financial pressures.

The two largest risks come from reduced business rates and savings delivery. In the current financial year, Business Rates increased initially, but the collectable amount has fallen by over £1m in four months at the time of writing. Business Rates numbers are volatile as businesses demolish, convert and redevelop sites in the borough. From a savings delivery viewpoint, the risk is real; in 2013-14, there are over £1m of savings currently at risk of not being delivered in year. Where appropriate these will be adjusted for in the 2014-15 financial year. However, 2014-15 will have a very high savings target of over £12m. By its very size (almost 10% of the Council's budget), this savings plan will be an inherent risk.

There are processes in place to manage some of these risks, and these are highlighted below. Many of these overlap with the Corporate Risk Register or service risk registers where further details can be found.

Table 3.4: Managing risks

Risk	Management Control
Thirty one additional / less Looked After Children	Monthly monitoring of LAC numbers against budget by CMT. More regular monitoring by the

[1] The current tolerance above and below the average level of Looked After Children anticipated per the 2014-15 budget.

	service.
Collection rates change by 1%	Monthly collection rates monitored to CMT Regularly meetings with the transactional services provider
Business Rates appeals	Notifications from the Valuation Office Pro-active visits to be undertaken by the transactional services provider
Over / under delivery of savings	Monthly monitoring of savings against a RAG framework, quickly highlighting to CMT where savings might not be achieved and to take action.
Further Government funding reductions	Regular monitoring of DCLG announcements. Informal networks with other Councils
Performance on Council investments	Monthly meetings of the Treasury Management Group to monitor investments and change strategy if required.