Medium Term Financial Strategy: 2015-19

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.

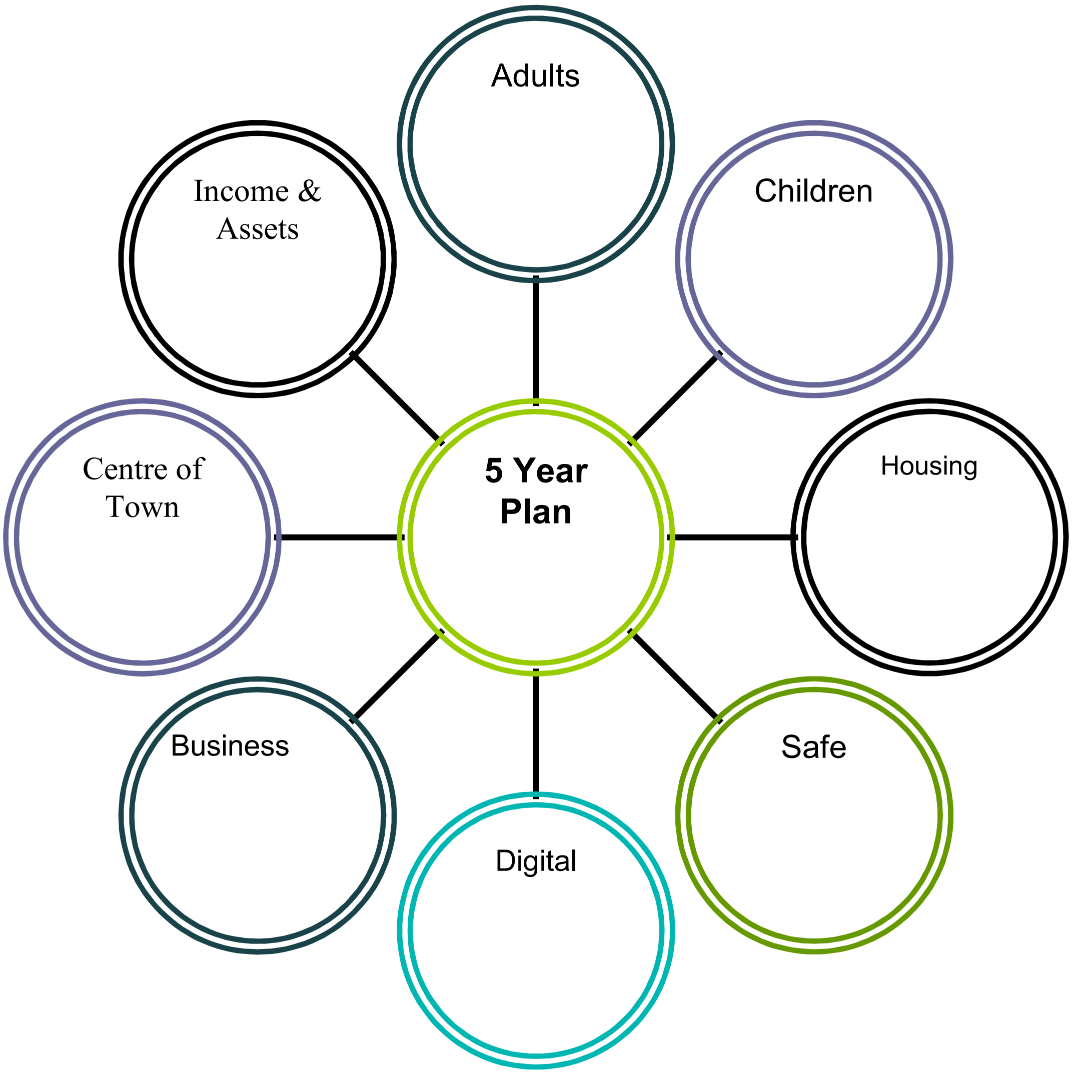
Given the scale of the ongoing reductions in Central Government spend, the Council has, and will increasingly need to, deliver public services in a more joined up, effective and efficient manner. Maintaining the current levels and delivery of existing services is unlikely to be an option to the Council 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. The Capital Strategy going forward will be even more focussed on delivering revenue savings through the effective use of infrastructure investment.

This document provides the overarching framework for the Council; the revenue budget 2015-16, Capital Strategy 2015-20 and the Treasury Management Strategy 2015-16 provide the detail behind this and are due to full Council meeting in February 2015.

The Council has a new corporate plan that provides the high level outcomes that this document seeks to deliver through the financing of the Council's activities. The Five Year Plan (5YP) summary themes (to be considered by Cabinet in January 2015) are highlighted in the below:

Graph 1.1: The 5 Year Plan – summarised outcomes focus



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 2015-16), as well as significantly reducing funding to Local Government. It is also 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.

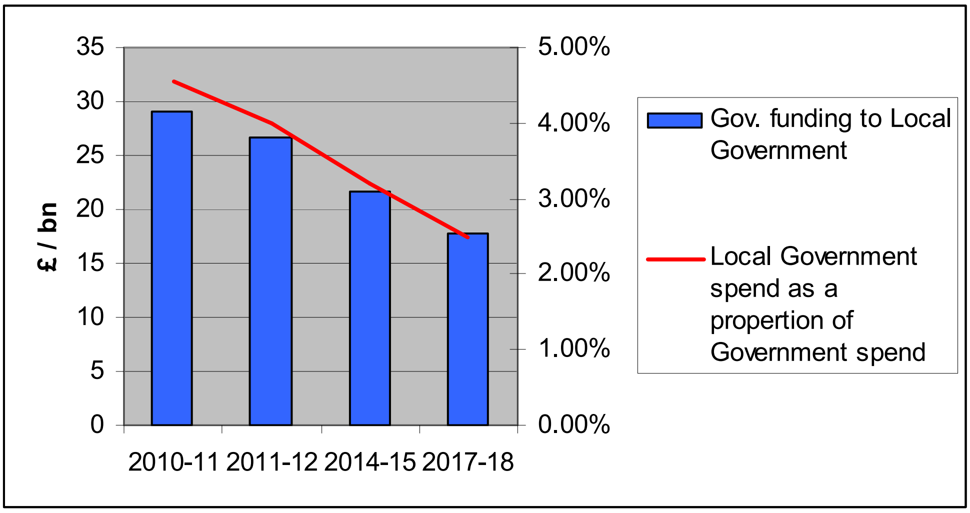
Included throughout the MTFS are some case studies outlining where the council has, or is proposing to over the MTFS, make savings to provide services and protect the public purse.

The Financial Challenge

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.

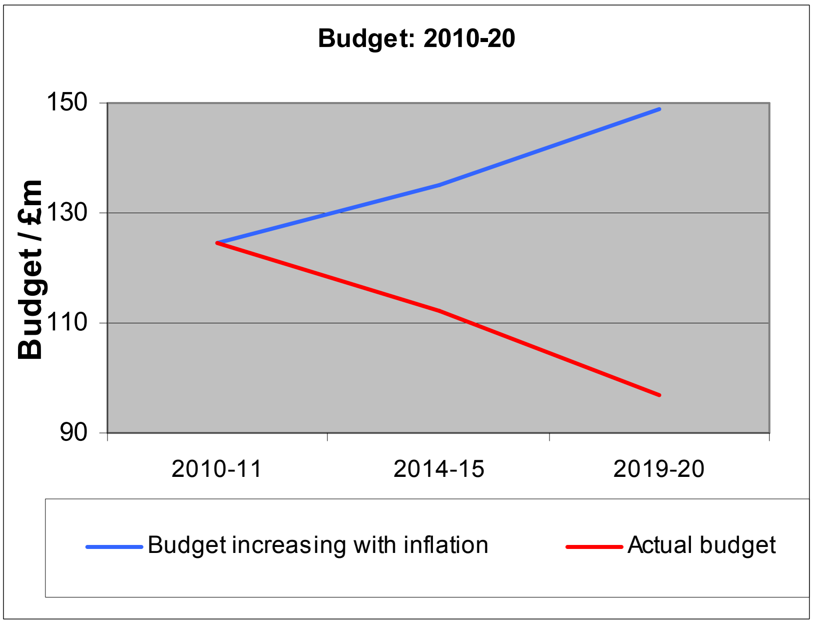
Chart 2.1: Reductions in Local Government revenue spending: 2010-18



The impact on the Council has been significant. Since 2010, the Council's overall net budget has reduced by 14% 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 £66 in real terms in 2018-19.

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

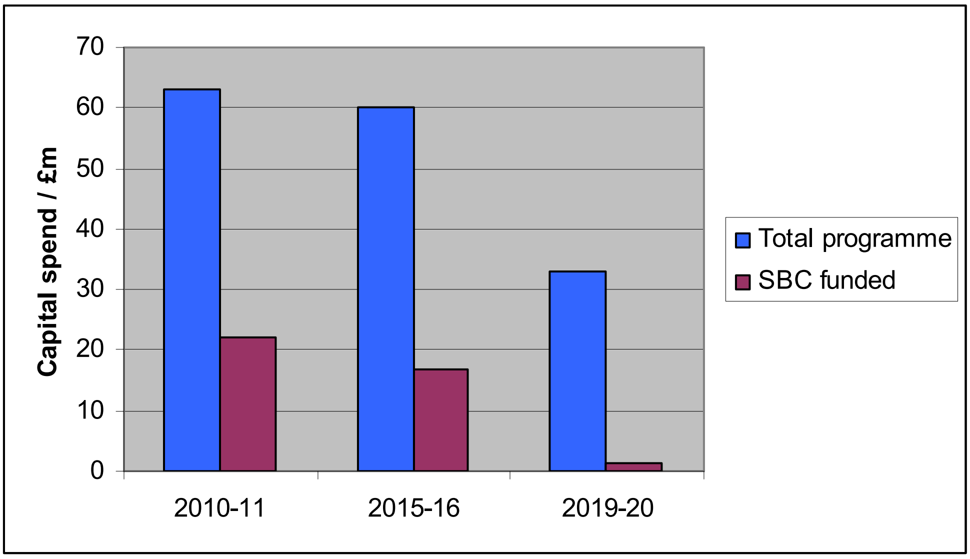


Over this period of reduced expenditure, the Council has been given greater freedoms with where it spends money with the removal of many of the previously ring-fencing funding streams. Though this has not compensated the Council for the funding reductions it has faced, it has meant that the Council has more control over its future spending priorities. With the Department for Education's intention that Children's Social Care in Slough is run through a separate organisation, the Council faces a new financial challenge to ensure that the provision and cost of these services remain affordable in light of the other pressures placed upon the Council for its services over the MTFS.

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 2015-20 details more the future capital plans for the Council going forward.

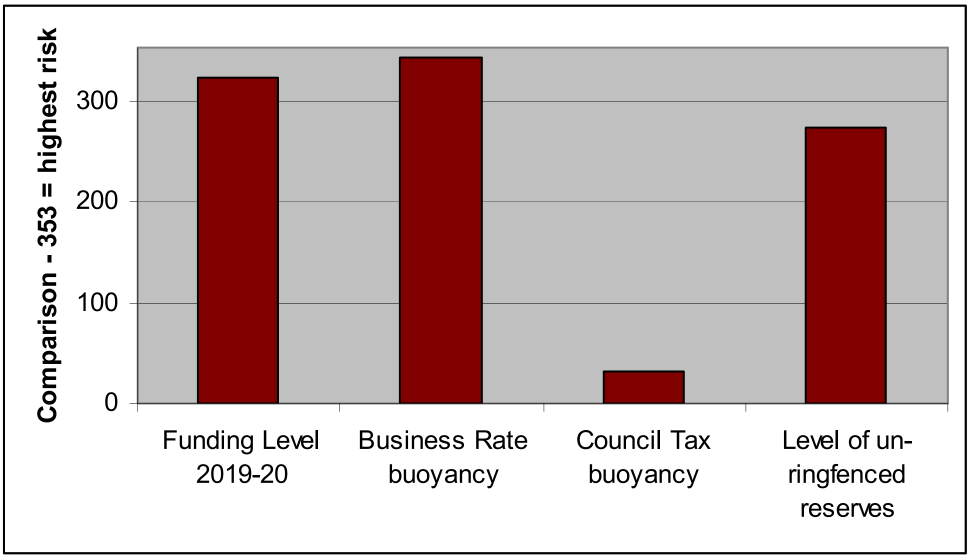
As can be seen from the below, capital spend is expected to reduce over the coming years, though this is with lower assumptions of education spend, and will be once much of the significant works on the Curve and transportation schemes are completed.

Chart 2.3: Capital expenditure & future plans



The Local Government Association has also completed some analysis of how the council compares to other Councils when considering the risk and opportunities available to the Council going forward over the life of the MTFS.

Chart 2.4: Financial comparison analysis[1]



The analysis above is consistent with the previous MTFS and the much of the work completed concerning the finances of the Council. This chart shows SBC's comparison against all other Councils. A ranking of 1 means the lowest risk, whilst 353 represents the greatest comparative amount.

Looking at the key outliers, and starting with the funding level and volatility around this, it shows that the Council is at a greater risk than many of

[1] A score of 1 indicates the 'best' position compared with all other Councils, and one of 353 indicates the 'worst' position'.

delivering its services within the funding available to it. This is because of rising pressures within Council services in Children's and Adults social care, but also because the Council is exposed to risk from Business Rates and from falling Government Grants. Many Councils will face a significant risk from one of these funding sources, whereas Slough faces the risk from both of these due to it having a large business community and also a higher level of financial need for the borough compared to other Councils.

Business Rate buoyancy highlights that the fluctuation in business rates has been significant and that the overall rate of growth has been lower in Slough compared to other Councils before 2014. The 5YP is very much focussed on ensuring that there is less risk from this area. Council Tax buoyancy highlights the growth in the Council tax base in recent years, and this has been reflect yet again for 2015-16 with a year on year Council taxbase growth of almost 3%.

The overall un-ringfenced reserves (i.e. the General Fund and earmarked reserves) show that Slough's position is that as a Council we hold slightly lower levels of reserves than others. It is important to note however that the General Reserve is above the minimum level set by the s151 (Chief Finance) Officer, and that the Council has to ensure that there are suitable general and earmarked reserves to ensure the proper functioning of the Council against holding excess reserves that could be utilised more effectively to assist the Council going forward. More information on reserves can be found in the revenue budget papers for 2015-16.

The Council sits in the middle of risk in respect of the impact of welfare reforms; this will be a key risk going across the period of the MTFS for the Council and impacts that these will have upon the Councils services e.g. housing.

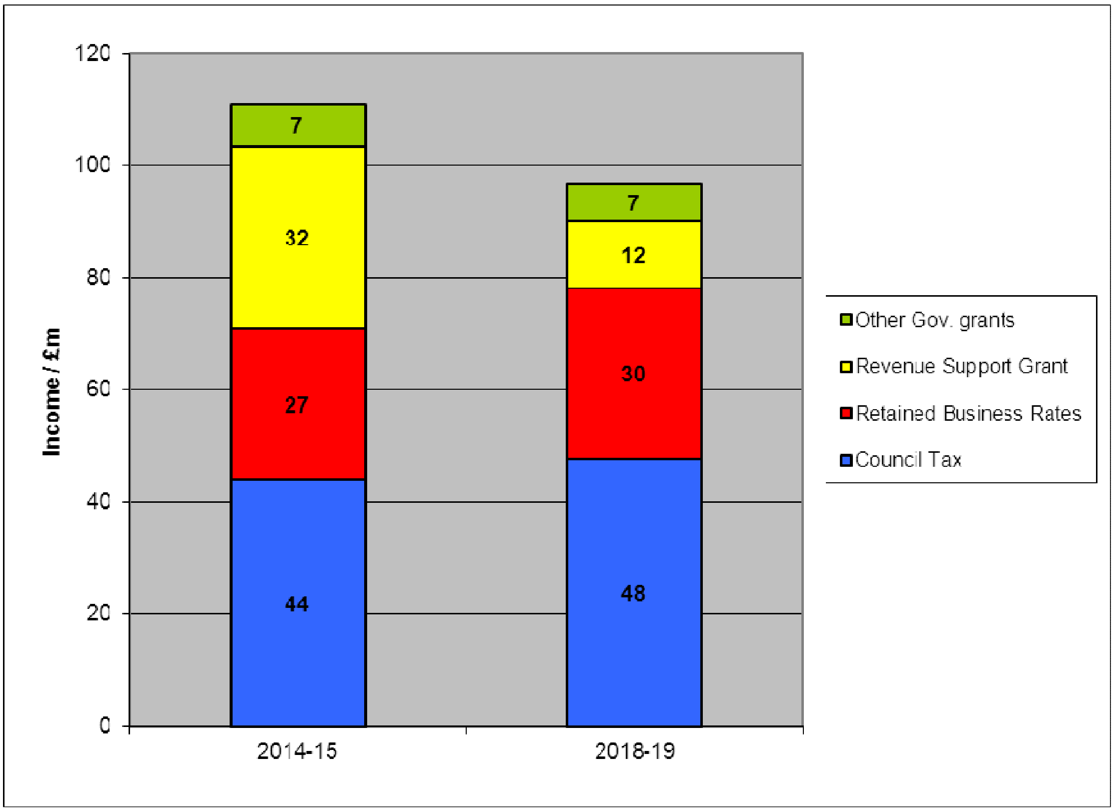
Case Study – increasing Treasury Management Returns

The Council manages around £90m of investments each year. The Strategy for managing these was significantly changed in 2014-15 to diversify investments across a wider portfolio of deposits. This has included completing some longer term investments, including with a property fund. The Council's average returns has improved from approximately 0.5% to 1.3%, with an increase of over £1m to offset having to make savings elsewhere in the Council. The Council's comparative performance has been greatly improved, and in quarter 2 was one of the best performing in its comparator group.

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.

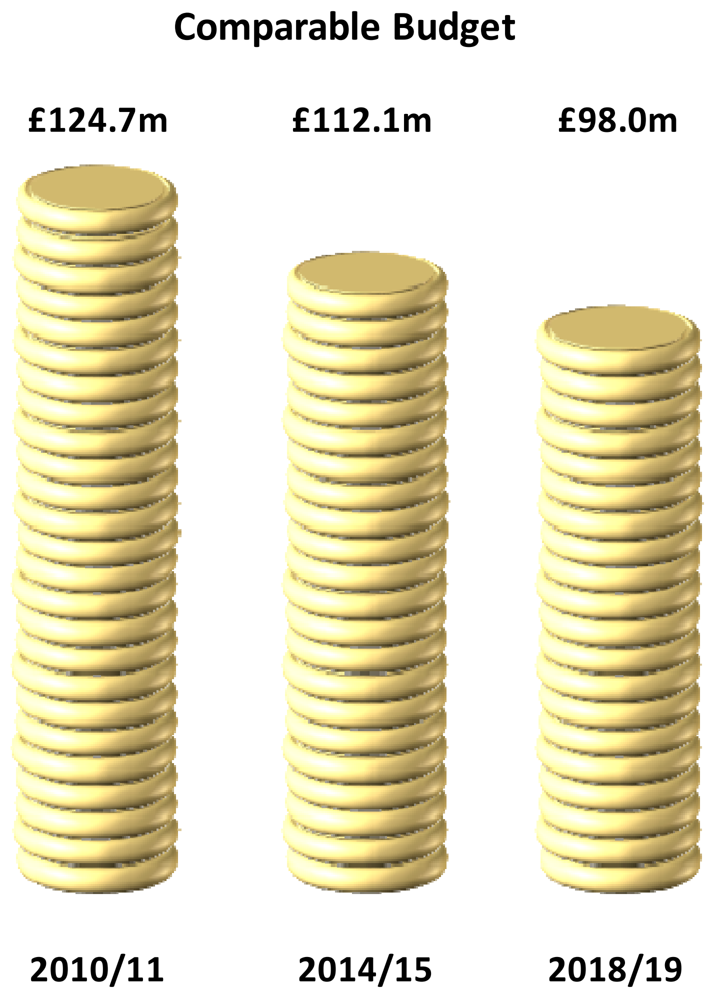
Chart 2.4: Income streams 2015-19



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 63% 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 has made retaining existing businesses and attracting new businesses, as well as ensuring a strong supply of housing two of the key outcomes within the new 5YP.

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 following the General Election) 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: 2010-19[2]

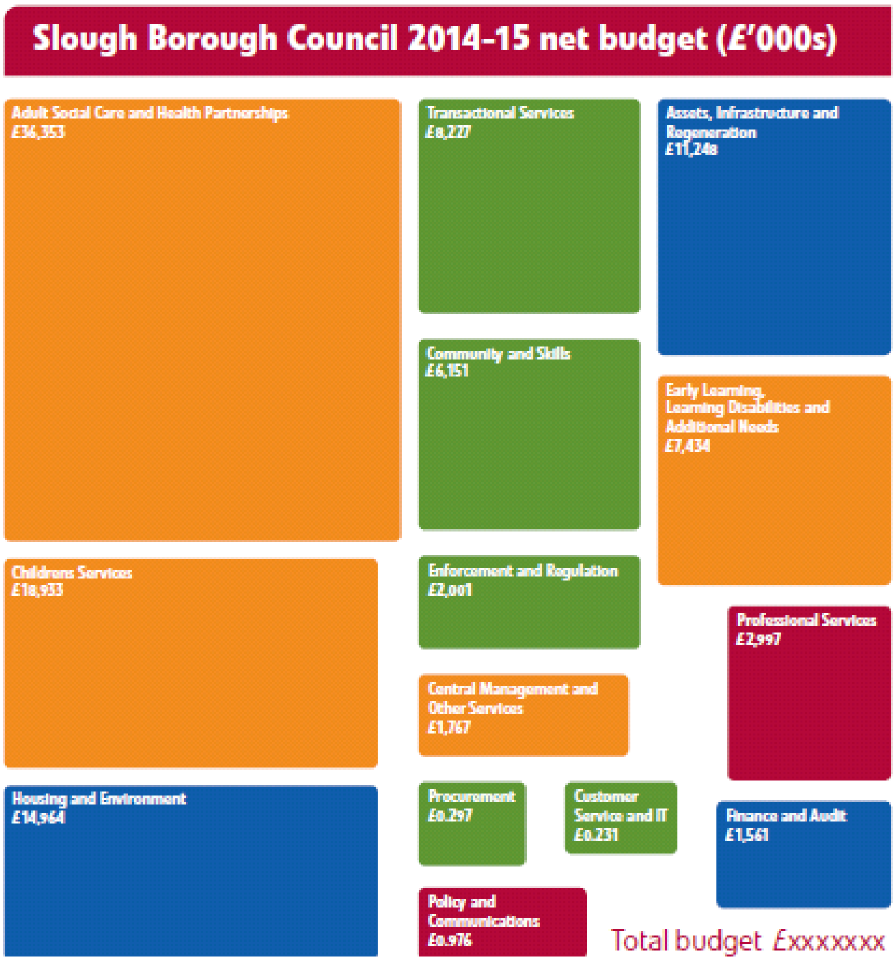


It is also clear from the above chart that the Council will have significantly reduced funds going forward. The chart above highlights the relative decrease in the comparable budgets over time from 2010 through to the end of the MTFS. Over this same period, many of the demands on the Council have not 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 (CSC). Following the Department for Education's intention to place Children's Social Care services into a separate organisation, the Council will need to work closely with this new organisation to ensure that the delivery of services remain affordable and deliver improvements. The CSC service makes up approximately 17% of the Council's net budget; any new financial pressures emerging from this service will only place even greater savings onto all other Council services. The Council needs to work with the new organisation for CSC to ensure that whatever model of delivery is pursued that it remains affordable within the Council's overall budget, and anticipates that the CSC organisation will deliver the same percentage level of savings as the rest of the Council.

[2] These are actual cash amounts

On the expenditure side of the Council's finances, the summary position for 2014-15 is below.

Chart 2.6: Net expenditure by service – 2014-15



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.

Case study – Adult Social Care Transformation

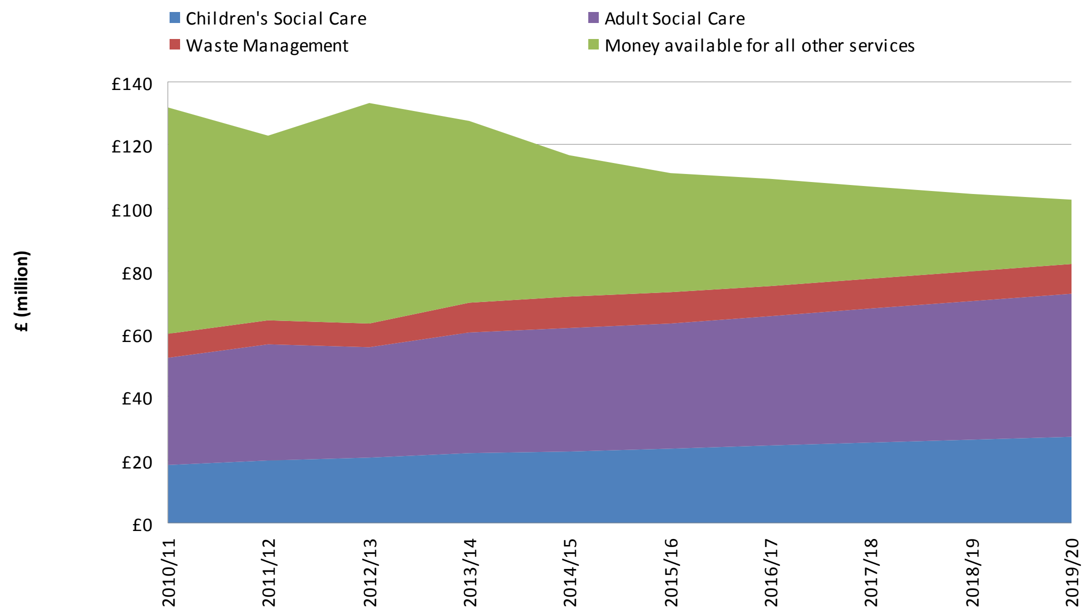
The way in which the council delivers services to adults is changing fundamentally. The two main reasons for this are the Care Act and the Better Care Fund. These will see services delivered in news ways: more people will be encouraged to manage their own care and support via personal budgets, there will be a cap on the amount clients contribute towards their care costs and the council and health care providers will work even closer together to ensure both better value and reduce delays in social care clients leaving hospital. For these reasons plus the fact that the council has less money to spend, Adult Social Care is transforming its services to ensure it meets the new requirements of the Care Act and the Better Care Fund and at the same time ensure those clients meeting our eligibility criteria receive a quality service at the best possible price.

In particular the Learning Disabilities Change Programme will continue to contribute to the overall ASC Transformation agenda. This is being achieved by ensuring all LD clients are place in the right accommodation at the best possible value. So far 15 clients have moved into supported accommodation from traditional residential settings and a further 13 is planned over the coming financial year. Other clients not moving will have their care costs reviewed to ensure these meet industry standard best value pricing tools. This particular initiative will contribute a further **£1m** in 2015/16 on top of the **£1m** already achieved over the past 2 years.

Overall the ASC Transformation Programme will save **£3m** in 2015/16. This is in addition to another **£3m** that has been already been saved in the current financial year.

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 2019-20. The Council's strategy through the 5YP is key to ensuring that this does not occur and that the Council shapes its budgets to deliver growth and make its priority services affordable:

Graph 1.3: Comparative budgets 2010-20



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.

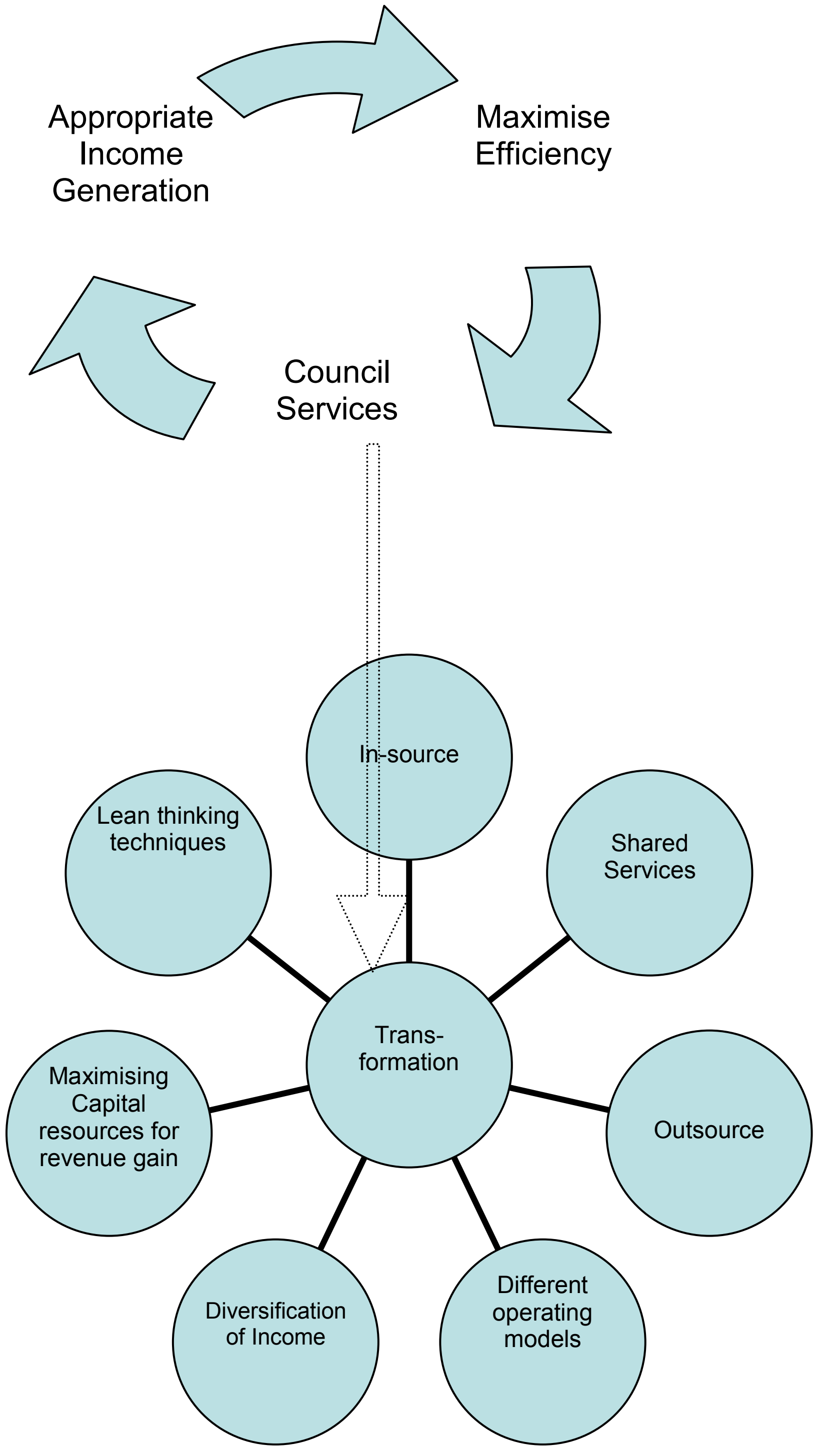
The first step the Council will undertake is to maximise all efficiencies from across its service areas; before any further transformation is completed, it is important that all services' comparative costs are understood and the Council is either content with these, or wishes to drive out further reductions 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.

Case Study – Council Tax Single Person Discount Review

It is more important in the current financial climate than ever to ensure that the Council maximises its income from Council Tax and that discounts are claimed correctly. The Council worked through its transactional services partner, arvato, to review the Single Person Discounts of 25%. Using a data matching exercise, almost 4,000 cases were reviewed for investigation with nearly 500 discounts now stopped.

Using a Band D property average, removing the 25% SPD will yield approximately £150k per year over the life of the MTFS.

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 and case studies are highlighted throughout this document demonstrating some of these.

Case Study – Reducing premises costs

The premises cost review links into the Five Year Plan under the ‘Using Resources Wisely’ Outcome and includes all operational assets held, occupied, leased, used or contracted to be used on behalf of the council. This includes (but is not limited to) offices, SBC funded schools, leisure centres, parks buildings, waste management centres, crematoriums, libraries and community centres; HRA assets, except for social rented housing, are also included.

Along with understanding the location, usage and strategic fit of existing operational assets, mapping the cost drivers of the premises will help the council to make more efficient and effective use of office accommodation, rationalise usage of other corporate assets, and adopt a consistent approach to the management of corporate premises.

It is planned to realise major savings of up to £2m and a 20 % reduction in the council’s corporate footprint within four years. This will be achieved through the disposal of surplus and ‘unsustainable’ premises, reducing liabilities in terms of lease/hire agreements with third parties, maximising income from investment and operational properties (including renting space to other public bodies), and the implementation of a Corporate Landlord approach to the central management of assets.

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.	*2014-15*	**Funding**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
1	*43.85*	Council Tax	45.13	46.36	47.52	48.72
2	*27.13*	Retained Business Rates	29.13	29.37	29.66	29.96
3	*32.47*	Revenue Support Grant	23.81	19.60	15.60	12.48
4	*1.96*	Education Services Grant	1.46	1.24	1.05	0.90
5	*2.36*	NHS monies through BCF	2.36	2.36	2.36	2.36
6	*2.01*	New Homes Bonus	2.60	3.20	3.20	3.20
7	*1.03*	Other non-ringfenced grants	1.08	0.80	0.70	0.60
8	*1.30*	Collection Fund	1.90			
9	***112.11***	**Total Budgeted income**	**107.46**	**102.92**	**100.09**	**98.20**
10	*114.25*	Prior year baseline (adj.)	112.34	108.51	102.76	99.81
11	*3.54*	Base budget changes	3.52	2.90	2.90	2.90
12	*8.20*	Directorate Pressures	1.89	2.92	1.86	2.00
13		Revenue impact of Capital investment	0.00	0.60	0.00	0.00
14	*-1.34*	Other adjustments	-0.50	0.16	0.28	0.10
15	*-12.53*	Savings requirement o/s		-5.72	-2.01	-1.01
16		Savings identified	-9.79	-6.45	-5.70	-5.60
16	***112.11***	**Net Expenditure**	**107.46**	**102.92**	**100.09**	**98.20**

n.b. Rounding errors apply. Further detail contained within the 2015-16 figures will be included within the 2015-16 Revenue Budget papers.

(1) Council Tax – assumed that the taxbase (i.e. number of properties in Slough) rises by 1.5% from 2016-17 onwards. Council Tax is due to be frozen in 2015-16 by utilising the Council Tax Freeze Grant.

(2) Retained Business Rates – assumed small growth in Business rates for 2015-16 and that they rise in line with inflation thereafter.

(3) Revenue Support Grant (Government grant) – includes 2015-16 figures announced by Government in December 2014. All future years to see a reduction in line with anticipated reductions to Departmental Expenditure Limits (DEL) from the HM Treasury. These are purely estimations until further clarity is provided in the next spending review.

(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 for 2015-16 onwards. This amount is now included within a wider Better Care Fund allocation of £8.1m that includes the pooling of NHS and SBC monies together. In future years, this will be shown in a different presentation, but to ensure consistency with the previous year it is per the above.

(6) New Homes Bonus – assumed growth 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 – the 2015-16 items are detailed in the revenue budget paper. These were far lower than the previous year, and similar levels have been forecast going forward in the MTFS.

(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. For 2015-16 the costs through using internal balances are expected to met by utilising one off capital receipts and increased Treasury Management Returns.

(14) Other adjustments – in 2015-16 this is the use of the £500k of one-off reserves released following a review of earmarked reserves.

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

Long Term Financial Position

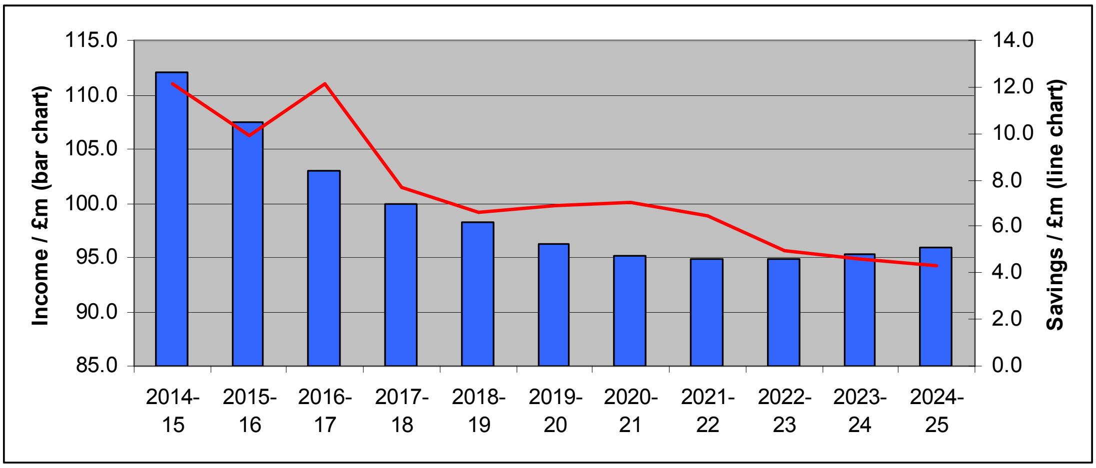
The scale and the timeframe for funding reduction remain an unknown from Government, however, it is important that the Council considers the longer term financial impact of decisions that are being made at the moment.

One unknown at present is the impact of the macro-economic position on the decisions made by whichever UK Government is in place from 2015. Continued instability in European and world financial markets may well change Government fiscal policy and this will then impact on the Council's financial position.

Over the longer term, it is likely that the Council will need to borrow to support its capital programme. Though much of this is dependent on the level of Government grants in the future, it would be reasonable to assume that within 5-10 years the Council will have a borrowing requirement through using its internal balances and through the repayment of loans when they finalise (with £12m finishing within the current MTFS).

The graph below highlights at a very simple level the income and expenditure requirements, with relatively benign inflation levels, that Council Tax base growth slows to 1% and that Business Rates remain static except inflation. It also assumes continued suppressed pay inflation and that Government funding reduction of 25% p.a. remain.

Chart 2.8: Long Term Financial Model



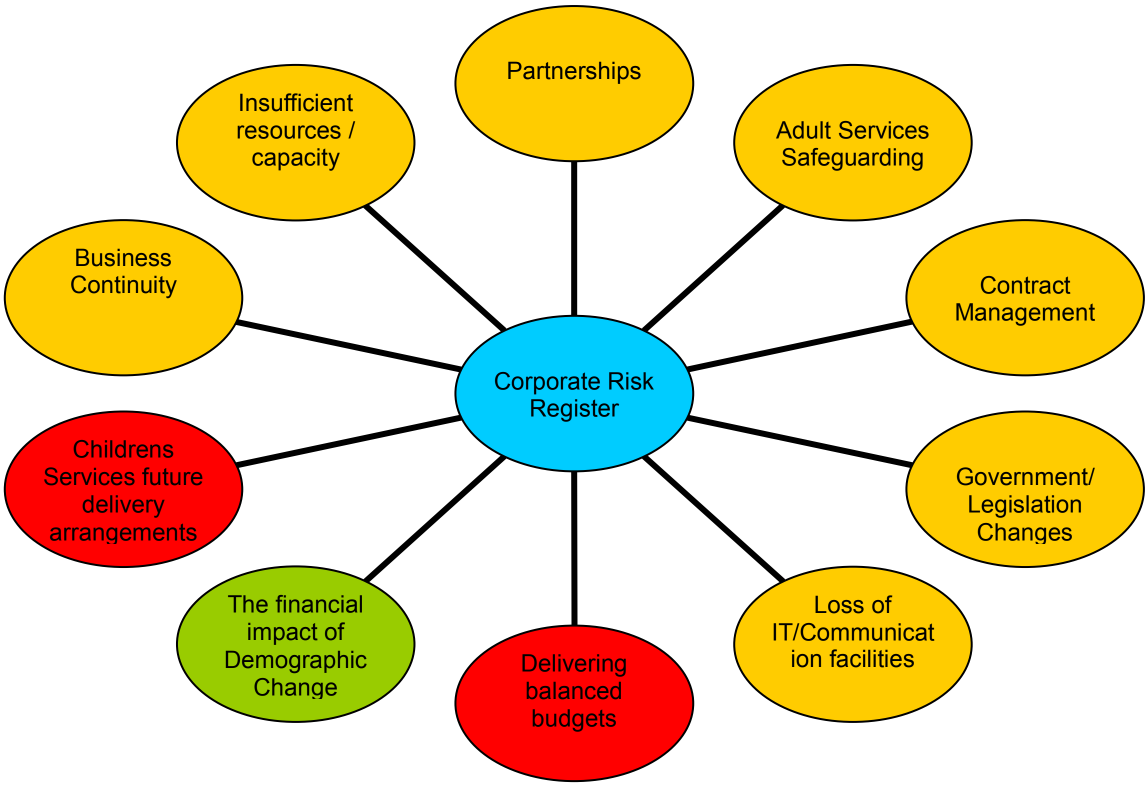
The above highlights that around 2021, the Council's income would start to level off. The reason for this is that by this point the Council would have minimal Government Grant. One of the unknowns is that the Government are due to rebase the business rates system in 2020 and this will have an impact upon the above but it is impossible to quantify.

What this highlights is that the impact of any increased demand on the Council's services will have a significant impact on the rest of the Council's services. The savings requirement throughout the above is still far higher than the pre 2010 levels seen, and so the Council will need to make sure that transformation is not only ongoing, but that it is constantly eroding the cost base.

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



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
Increased cost due to the new CSC organisation	2	-2
CTX Collection rates change by 1%	0.45	-0.45
BR Collection rates change by 1%	0.3	-0.5
Business Rates appeals[3]		-2
Over / under delivery of savings	1	-3
Further Government funding reductions – new budget following the general election		-2
Performance on Council investments	0.5	-0.5
Total	**4.25**	**-10.45**

It is highly likely that all of the above scenarios will occur *to an extent*. There are some positive as well as negative risks. The Council has seen significant in year pressures from Children's Social care in the 2013-14 and 2014-15 financial years. 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 in 2014-15 there are savings still highlighted as amber as not being delivered in year; any unmet savings have been adjusted for in the budget going forward where appropriate. However, 2015-16 will have a very high savings target of circa £10m. By its very size (almost 10% of the Council's budget), this savings plan will be an inherent risk.

[3] The Council holds a Medium term Financial Volatility reserve that would dampen the impact of the appeals for a one off period. It is current at a level broadly halfway between the expected business rates retained and the Government safety net.

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
Increased cost due to the new CSC organisation	CEX regularly meetings with the commissioner for CSC. Transition Board setup headed by the Strategic Director CCS.
Collection rates change by 1%	Monthly collection rates monitored to CMT Regular 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.