

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 13th July 2015

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WARD(S): All

PORTFOLIO: Councillor Anderson; Commissioners for Finance & Strategy.

PART I **NON-KEY DECISION**

MEDIUM TERM FINANCIAL STRATEGY UPDATE

1 Purpose of Report

The purpose of this report is keep Cabinet updated on the latest medium term financial position for the Council, and steps in place to utilise the financial planning process to address the increase savings requirement.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve that the updated medium term financial position, the revised financial planning assumptions and the Outcomes Based Budgeting approach be noted.

3a. Slough Joint Wellbeing Strategy Priorities

Cross cutting

3b Five Year Plan Outcomes

- Though this report in itself will not assist in the delivery of any of the 5 Year Plans, it does set out how the Council's financial planning will align to the 5YP
- The likely deterioration in income to the Council through reduced Government funding also places further urgency behind outcomes 1, 2 and 7 in order to maintain and improve the levels of income that the Council does have some control over, namely Council Tax, and to a lesser extent, Business Rates.

4 Other Implications

(a) Financial

All financial implications are considered within this report. One of the key themes of this report is the likely increased savings requirement for the Council in the next three financial years.

(b) Risk Management

Risk	Mitigating action	Opportunities
Legal		
Property		
Human Rights		
Health and Safety		
Employment Issues		
Equalities Issues		
Community Support		
Communications		
Community Safety		
Financial	Additional savings required to be identified	
Timetable for delivery		
Project Capacity		
Other		

(c) Human Rights Act and Other Legal Implications

There are no Human Rights Act Implications.

(d) Equalities Impact Assessment

There is no identified need for an EIA

(e) Workforce

Though there are no specific workforce implications within this report, the overall scale of the financial reductions to the Council will have implications on the workforce.

5 Supporting Information

- 5.1 The Medium Term Financial Strategy (MTFS) model is included below. This has been modelled with the potential impact of the Conservative manifesto and the macro financial pledges contained within this. At a summary level, reviewing the Institute of Fiscal Studies analysis and extrapolating this on an average across the decade presents the picture below. The key difference between this graph and previous expectations is the 'reverse tick' shape of this. The Conservative proposals differed in many ways to the other political parties approach, but especially on the consolidation of public finances with a much deeper shaped 'tick'.
- 5.2 Until there is a comprehensive spending review over the summer and autumn none of the figures will be finalised.
- 5.3 It is also important for the Council to understand the impact of the in year budget in early July and what change this will have on the Council's finances during the 2015-16 financial year.

Graph 1.1 and 1.2: Potential departmental spending: 2010-20 and changes to departmental spend 2010-2015

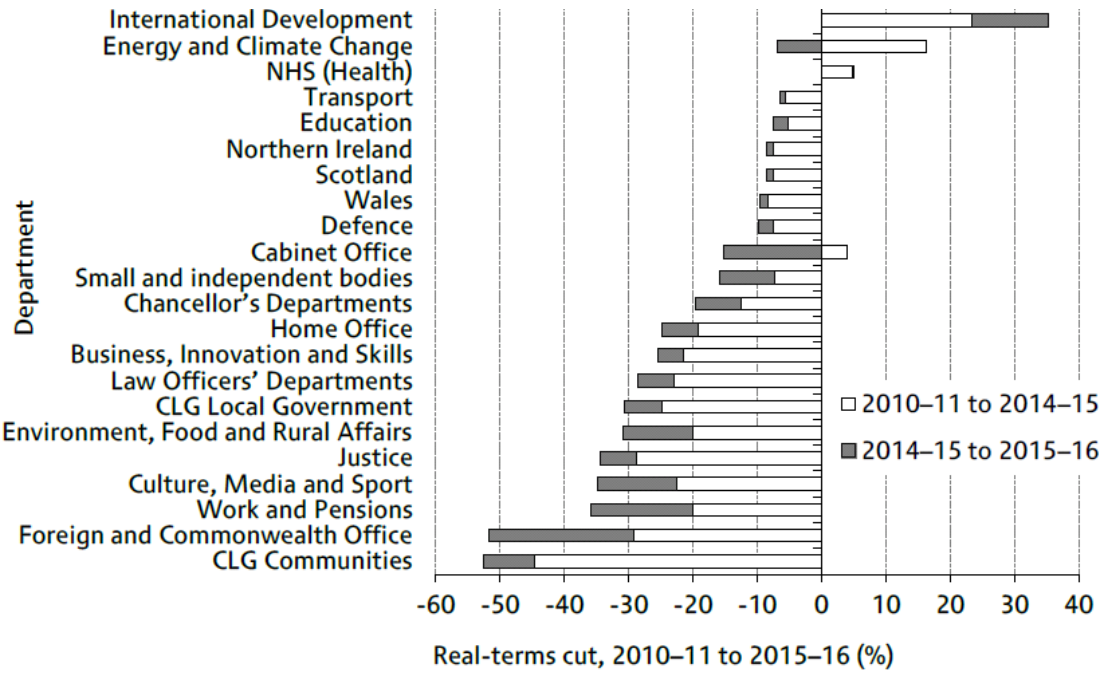
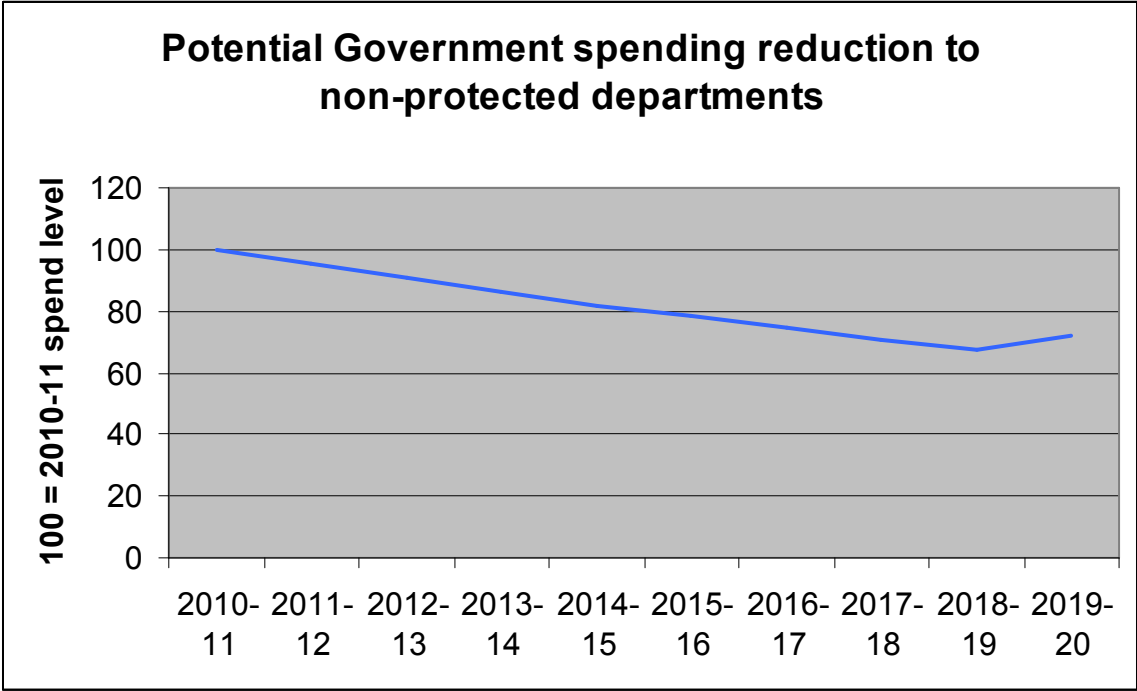
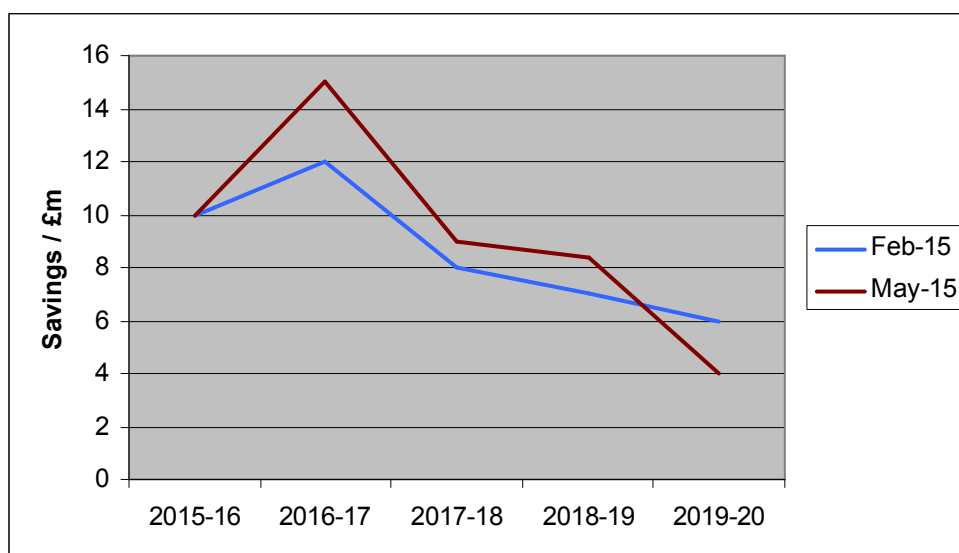


Chart 2.1: The MTFS model

No.	2015-16	Funding	2016-17	2017-18	2018-19	2019-20
1	45.13	Council Tax	46.36	47.52	48.72	49.94
2	29.13	Retained Business Rates	29.37	29.66	29.96	30.26
3	24.01	Revenue Support Grant	17.77	13.33	9.99	9.99
4	1.46	Education Services Grant	1.24	1.05	0.90	0.76
5	2.36	NHS monies through BCF	2.36	2.36	2.36	2.36
6	2.6	New Homes Bonus	3.20	3.20	3.20	3.20
7	1.08	Other non-ringfenced grants	0.80	0.70	0.60	0.50
8	1.9	Collection Fund	-0.20			
9	107.66	Total Budgeted income	100.89	97.82	95.72	97.01
10	112.34	Prior year baseline (adj.)	109.38	101.17	98.92	95.82
11	3.72	Base budget changes	2.90	2.90	2.90	2.90
12	1.89	Directorate Pressures	2.84	2.86	2.00	2.00
13		Revenue impact of Capital investment	0.60	0.25	0.25	0.25
14	-0.5	Other adjustments	0.16	0.28	0.10	0.10
15		Savings requirement o/s	-8.74	-3.44	-3.35	-4.06
16	-9.79	Savings identified	-6.25	-5.20	-5.10	
16	107.66	Net Expenditure	100.89	98.82	95.72	97.01

Graph 1.3: Impact on Savings between February and May 2015



5.4 The savings figures show an increase compared to previous forecasts. It is also important to consider that there remains £19m of the £35m savings programme to find over the next four years. The Council is commencing an Outcome Based Budgeting exercise to address the budgeting process going forward and identify further savings. However, assuming the financial trajectory detailed above, this will mean some very large scale savings, or some fundamentally different options are required for the Council going forward.

5.5 Income

- Business Rates appeals and volatility

This figure has been flat-lined for growth in the MTFS. Though the baseline is buoyant on one hand, due to the revaluation of business rates not happening until 2017, and the deadline for appeals to the 2010 listing being the 31st March 2015, the Council has seen a major increase in appeals being requested to the valuation

office. Due to this increase in workload the Valuation Office are also likely to be later than expected in putting any new premises into the listing as well which causes us a growth issue. At present, 67% of the Council's business rate base is being appealed. Though many of these are unlikely to be successful, some will be successful and can go back to 2010. This causes greater instability in the underlying finances to the Council of which we have no control.

- Collection Fund

A deficit has been factored in for 2016-17. This is on the basis that the 2014-15 outturn is likely to be worse than expected due to the high level of appeals from Business Rates payers (see point above). The collection rates for both Council Tax and Business Rates increased significantly during 2014-15, and expected to rise again in future years.

- Government funding

The revised mode now assumes a 25% reduction to Government grants year on year until 2019-20. This is an average of the 2014-16 reductions.

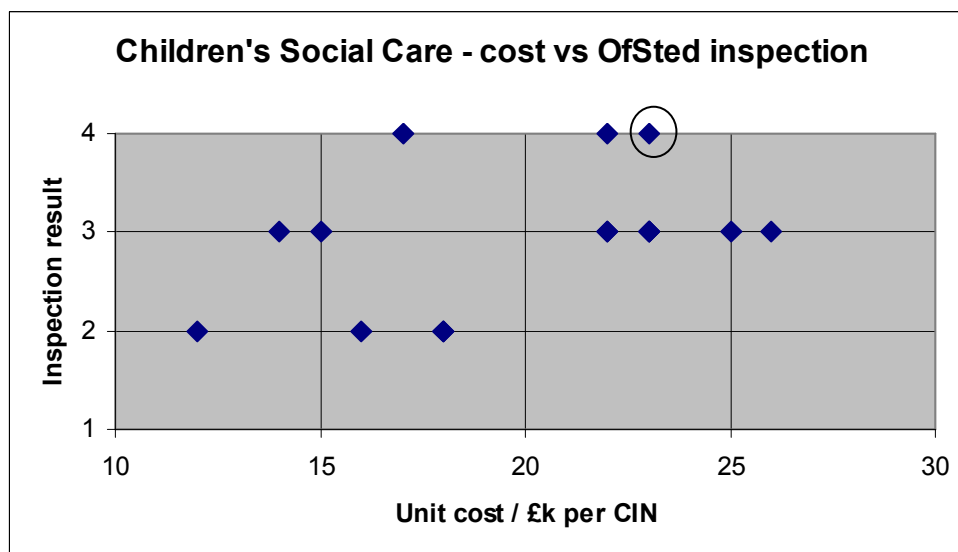
5.6 Expenditure

- Children's Service Organisation

The Memorandum of Understanding (MoU) sets out that the new organisation is expected to deliver savings¹. In light of the changed financial position, this is more important than ever. The MoU also set out a vision that sees a 'good' Ofsted rating in three years and an 'outstanding' one within five years. In light of the Council's financial position, the Cabinet need to ensure that they are comfortable with this remaining as the overall vision and that this is affordable within the Council MTFS and 5YP. As can be seen from the graph below, the general trend is that the better the Ofsted outcome, the lower the unit costs. Though final budget discussions on the new CSO are starting to commence and so nothing has been finalised, given the increased savings requirements for the Council, as well as the wider financial pressure on the council's income and expenditure through national and local developments, the vision as it stands for the new CSO is likely to have an impact on the Council's wider 5YP and aspirations.

¹ The Authority and the new organisation will agree an initial 3 year budget for the new organisation. In drawing up the budget, the Authority and the new organisation will take into account the Authority's savings targets. – Para 32 of the MoU taken to Cabinet in November 2014

Graph 1.4: Children's Social Care spend vs. OfSted judgement



If Children's unit costs² were average then there would be a 14.5% reduction in costs (circa £3m). If costs were around the upper quartile, the reduction would be over 25% (circa £5m+).

No additional costs have been included in the model in respect of the new CSO.

- Impact of welfare reforms, especially on housing

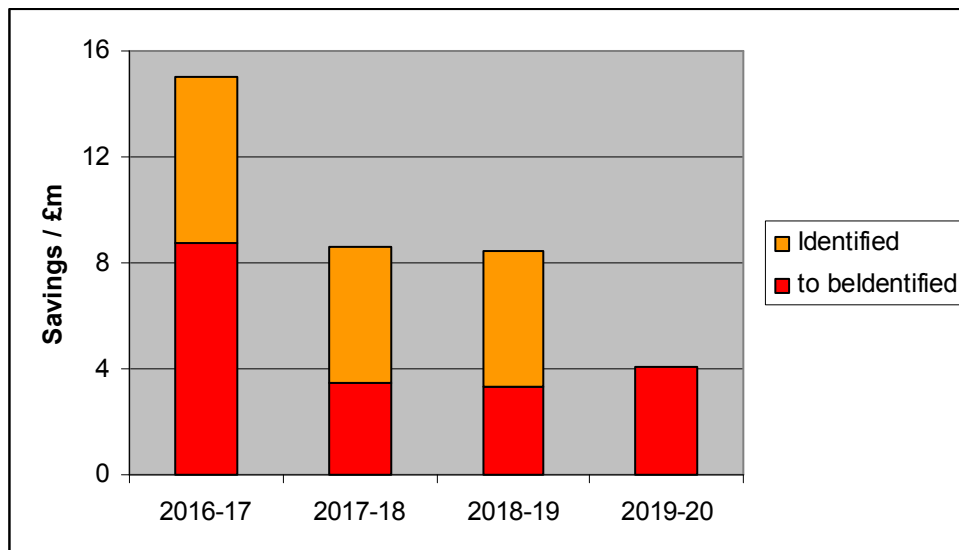
The reduction in the benefit cap to £23,000 from £26,000, the move to Universal Credit and the reduction in Discretionary Housing Payment (DHP) monies will all have a direct impact on residents and the Council's finances. The buoyant local housing market is pushing up prices and increasing rental income for landlords. With a decrease in welfare payments and rental levels that can be charged, there is little incentive for landlords to house some benefit claimants. This pressure in the private rented sector is then driving up costs to the Council as well as squeezing the supply of properties to house people who present themselves to housing and social services.

- Adult Social Care and wider savings programme

The Council has been successful in delivering savings as a whole in recent years. However, across the Council there has been five years of savings programmes far in excess of pre-2010 levels. The opportunities for savings, certainly efficiency savings, are dwindling. New ways of working are being brought in that will deliver savings going forward, but it should be noted that these are becoming increasingly higher risk. Adult Social Care (as the largest spending area by some way) has delivered sizeable savings in the past five years and will need to do so in the coming five years as well. The impact to residents of these savings, and many others across the Council are only going to become more marked. The graph below highlights the savings still to be identified through the Outcomes Based Budgeting process highlighted below:

² benchmark group contains the below based on 2014-15 *budgeted* information.

Graph 1.4: Savings profile 2016-20

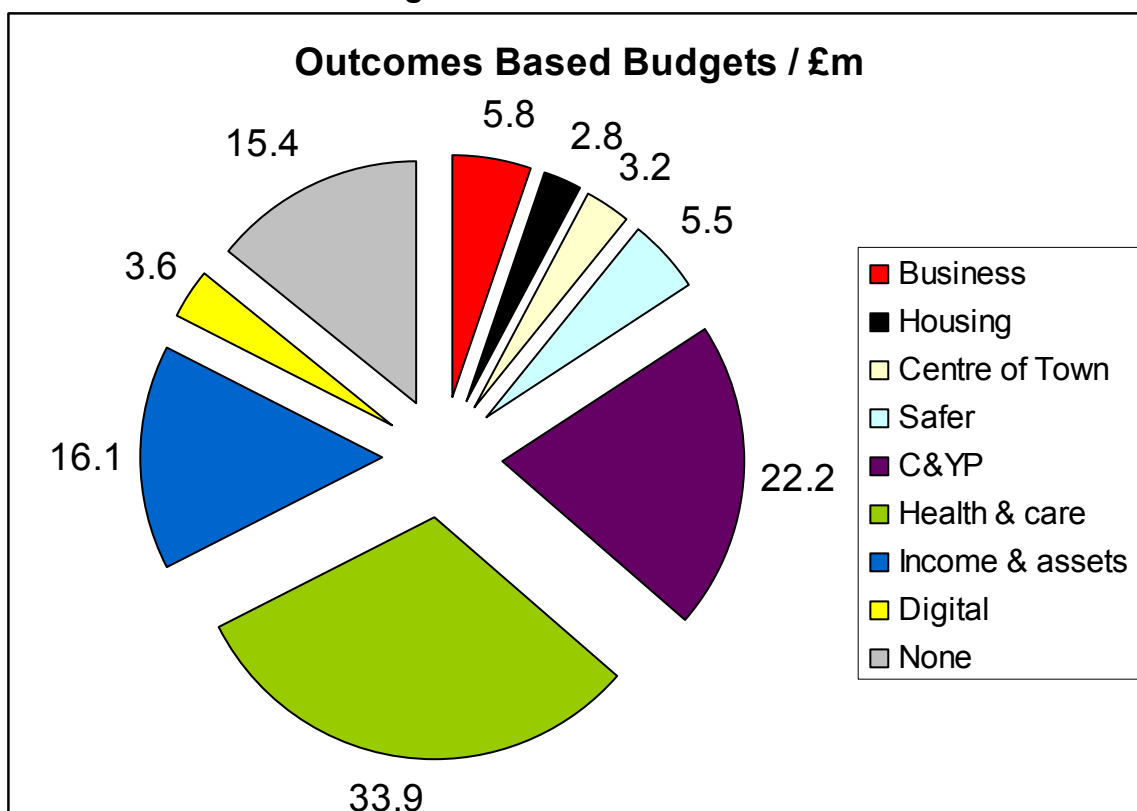


5.7 Outcomes Based Budgeting

5.8 For 2016-17 and beyond the Council is basing its financial planning processes around the 5 Year Plan (5YP) approved by Council in January. The purpose of this is to ensure that financial resources are geared towards delivering the 5YP and that decisions that members make around future service delivery and the associated costs are fully aligned with the 5YP.

5.9 To begin the process, the Council's existing budget is currently being mapped to the 5YP outcomes, a draft summary of which can be seen below. Once this process is complete during July 2015, the respective outcome leads will be required to provide options for how the outcome can be delivered for 65% of its current cost.

Graph: 1.4: Draft Outcome budgets



- 5.10 The rationale for the 65% is that this is level of saving required over the MTFS & 5YP in order for the Council to meet its requirement to set a balanced budget. The key for the Council is to ensure that as many strands as possible are utilised in seeking to reduce costs by 35% over the MTFS i.e. utilising capital investment to deliver revenue savings, using invest to save monies, securing long term transformation, utilisation of external funding sources, disinvestment with a clear impact assessment on the 5YP outcomes, securing additional efficiencies and maximise income generation opportunities.

Case Study: Using Invest to Save – Business Rates

The Council wishes to increase the Business Rates baseline to drive up income in autumn 2014. The Council commissioned arvato to inspect the wards across the borough and ensure that the Valuation Office had captured all relevant businesses were being charged the respective Business Rates due. The review had identified at least £680k of Business Rates payable, a ten fold return on the Council's investment. This will now go into the baseline and derive more income to the local and national Council taxpayer.

Case Study: Invest to Save – Street Lighting

The Council was recently successful in receiving government funding for replacing its street lighting with LED street lighting. The capital costs, which, through jointly procuring with other Councils is expected to reduce costs, will be paid back well within the ten year aspiration of the Capital Strategy, will deliver hundreds of thousands of pounds of ongoing revenue savings through reduced energy costs, decrease the Council's carbon footprint and provide better quality lighting for residents.

- 5.11 During the summer, the Council will also be launching a budget simulator to garner opinions of residents over the future spending decisions. This will be an online interactive tool which will enable anyone to set out a balanced budget for the Council and understand some of the consequences of delivering budgets in different ways. The Council will then use this information to help the Outcomes Based Budgeting process and highlight areas where residents have indicated should be relatively protected or see additional income generated.

6 Comments of Other Committees

This report has not been considered by any other committees.

7 Conclusion

- 7.1 For the Cabinet to note the report, the increasing financial challenges that the Council faces, and the utilisation of Outcomes Based Budgeting to re-shape budgets around the outcomes approved in the 5 Year Plan.

8 Background Papers

- '1' - February Full Council meeting – budget papers
- '2' - Institute of Fiscal Studies briefings