Medium Term Financial Strategy: 2016-20

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.

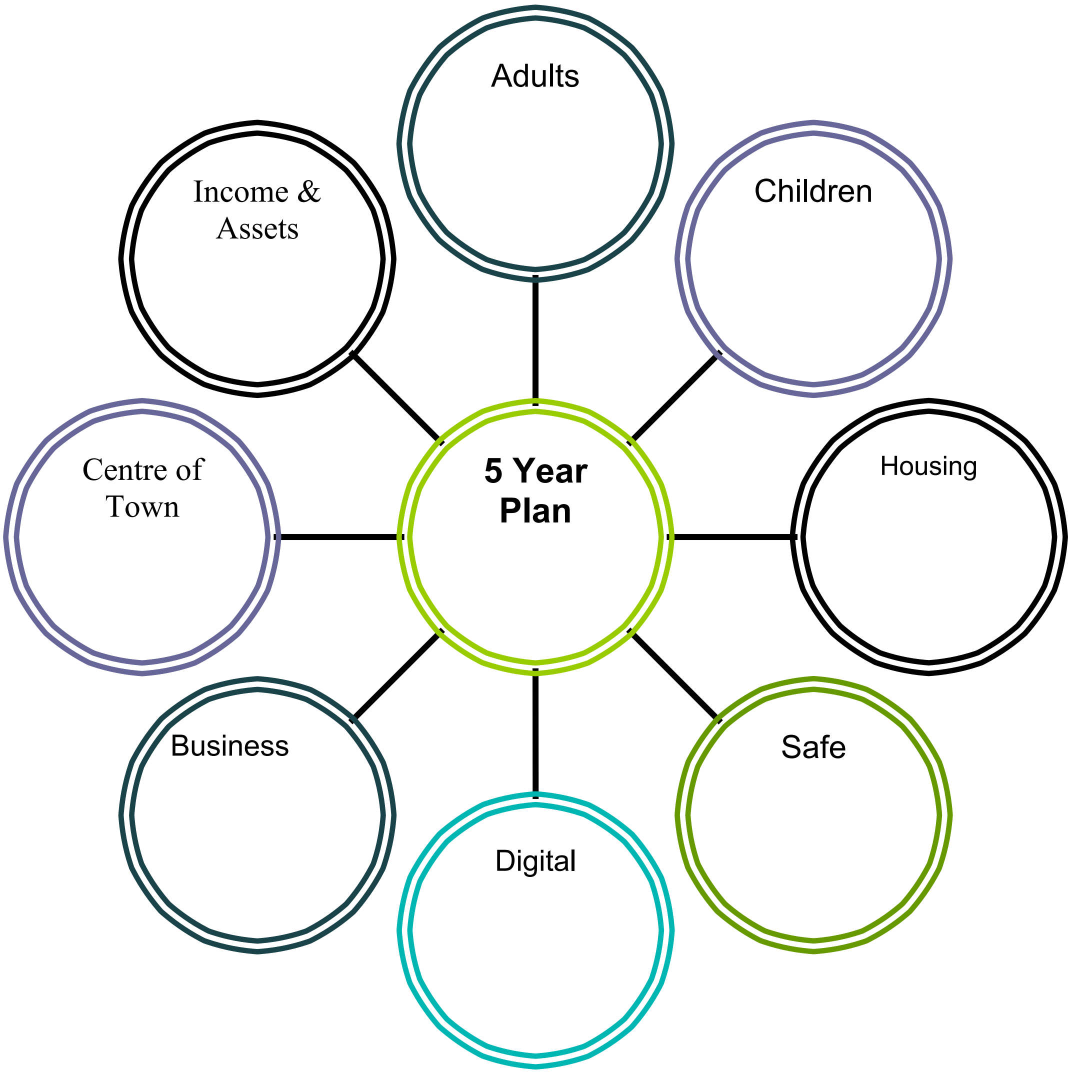
Given the scale of the ongoing reductions in Central Government spend, the Council has, and will increasingly need to, deliver public services in a more joined up, effective and efficient manner. Maintaining the current levels and delivery of existing services is unlikely to be an option to the Council 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 2016-17, Capital Strategy 2016-22 and the Treasury Management Strategy 2016-17 provide the detail behind this and are due to full Council meeting in February 2016.

The Council has a 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 updated themes (to be considered by Cabinet in January 2016) are highlighted in the below:

Graph 1.1: The 5 Year Plan – summarised outcomes focus



The Five Year Plan is key in defining our ambition, the challenges and opportunities we face, the role of the council in meeting these and the priority outcomes against which resources will be allocated.

Aligning the MTFS and the key messages in our financial planning with those in the Five Year Plan is essential. We need to be constantly vigilant to ensure that we are spending resources in the most effective way to achieve our outcomes. The Five Year Plan was launched in 2015 and as part of the refresh this year it has been proposed that the date changes to 2016-20 and rolls forward each year in line with the budget and MTFS. This will ensure that our strategic and financial planning are aligned and that we are working to the latest information available to plan our services.

The introduction of outcome based budgeting is an early example of how we are moving away from the traditional departmental based council model where budgets are salami sliced towards an approach that is designed to ensure greater resilience for the Council in the future. The cross cutting nature of the outcomes in the Five Year Plan supports this way of working. We are increasingly working in a more integrated way, not just internally but with our partners and communities too, to achieve the best outcomes for Slough.

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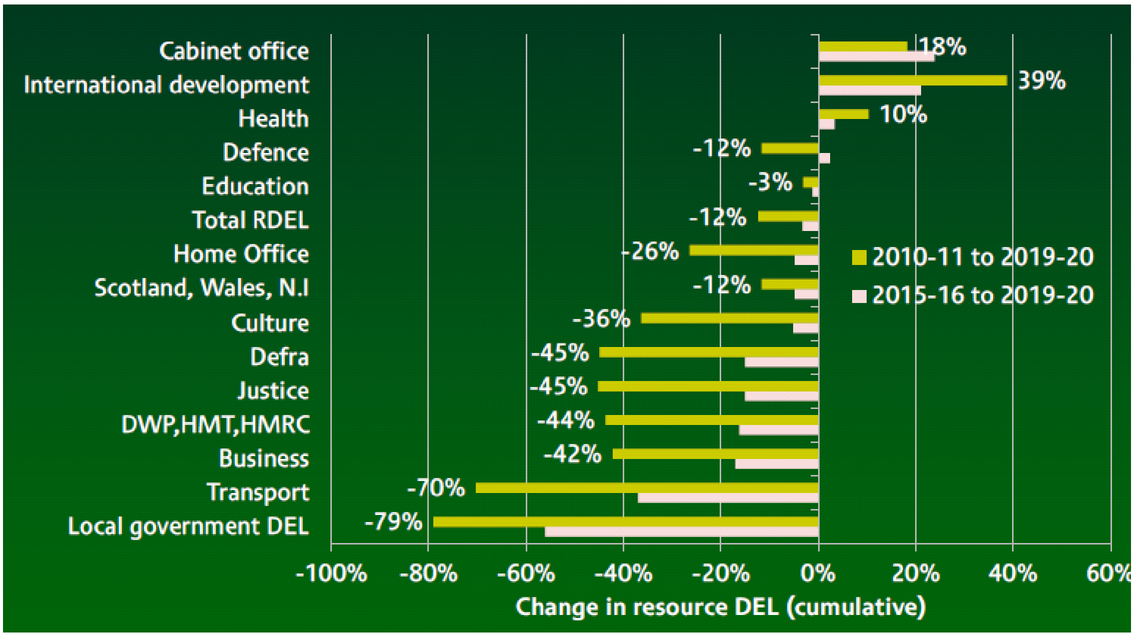
Included throughout the MTFS are some case studies outlining where the council has, or is proposing to over the MTFS, make savings to provide services and protect the public purse.

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.

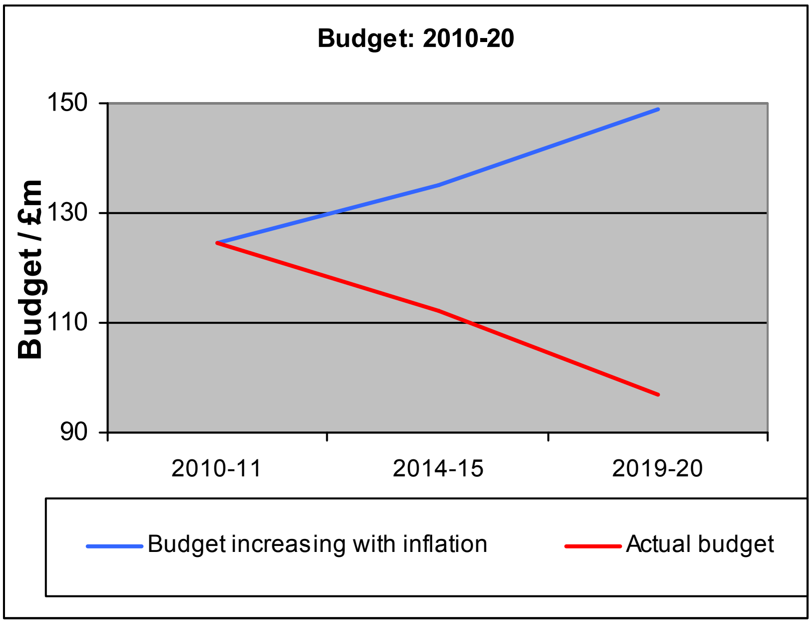
Figures from the Institute of Fiscal Studies highlight that Central Government expenditure on Local Government is expected to reduce by 79% over the decade 2010-20.

Chart 2.1: Reductions in Local Government revenue spending: 2010-20



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.

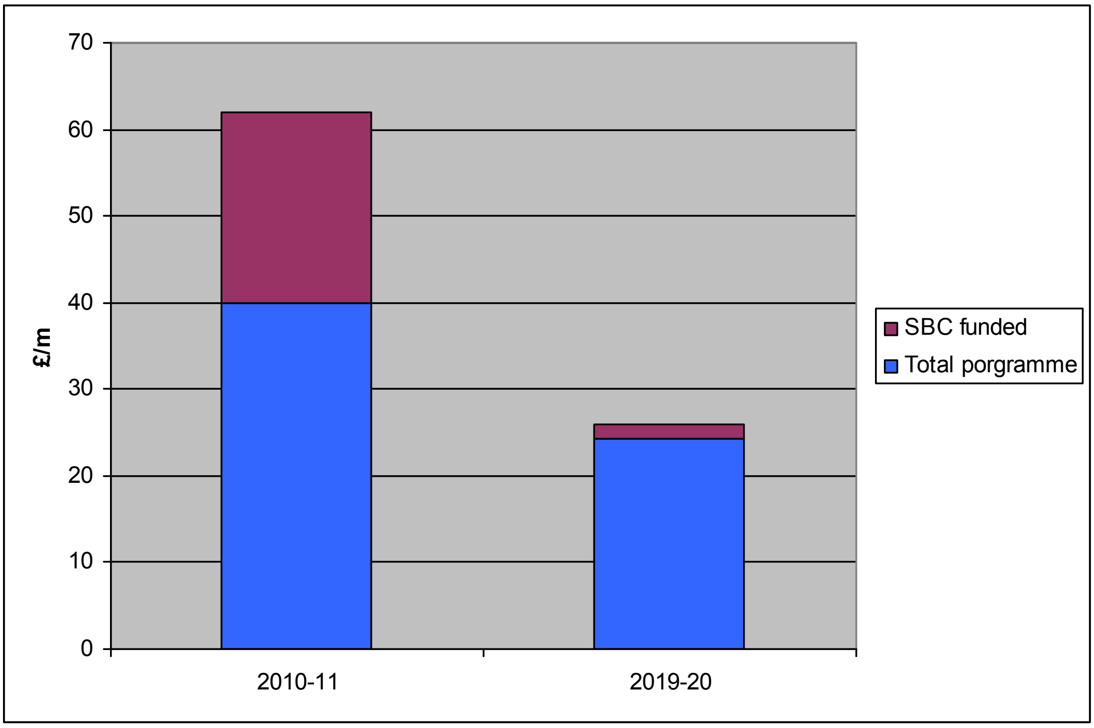
The Council's financial future is further complicated by the provision of Children's services by the Slough Children's Services Trust (SCST). With an initial net budget over £24.2m, it is the second largest spend area within the Council and ensuring that this service is delivered more effective and efficiently is crucial to the longer term financial health of both the Council and the SCST.

The Spending Review announced by Government in November 2015 also highlighted the shrinking role of Local Councils in respect of the provision of education. Though further detail is awaited on this, it is clear that the Government wishes to cease any schools being provided by Councils in the future and that the Education Services Grant (Which the Council currently receives £1.5m of non ring-fenced money for) will be removed in the medium term.

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 Urban Renewal (SUR) the Council will seek to deliver its most significant infrastructure projects outside of the Housing Revenue Account and Education schemes. The Capital Strategy 2016-22 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 much lower once the significant works on the Curve, Leisure Strategy and transportation schemes are completed.

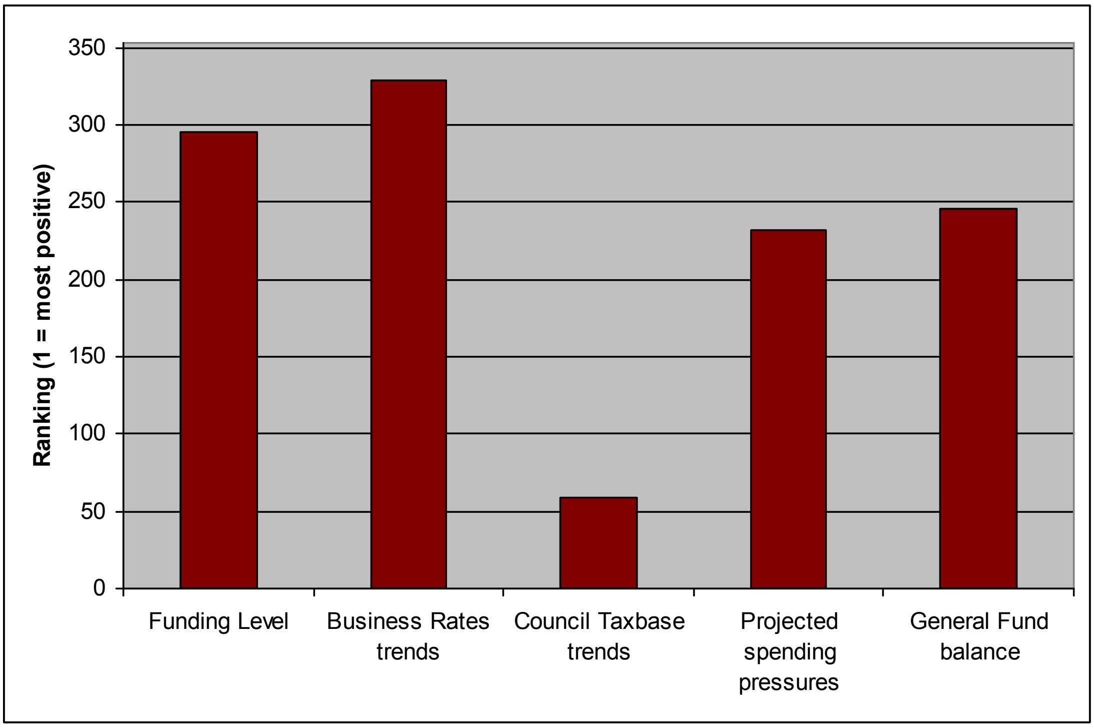
Chart 2.3: Capital expenditure & future plans



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]

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



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 other Councils in its delivery of 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 2016-17 with a year on year Council taxbase growth of almost 4%.

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 2016-17.

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.

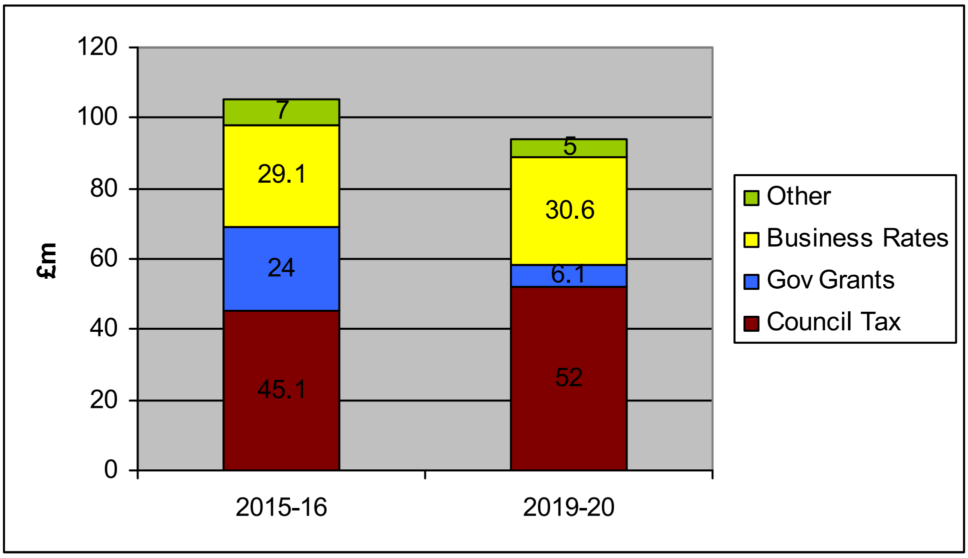
Case Study – Street-Lighting LED scheme

The LED street lighting project is to be delivered across the borough from April 2016 over 2 years. The contract has been awarded to Volker Highways Limited and is being delivered with our Berkshire neighbours Reading and Wokingham. The aim of the project is to provide uniform LED "white" lighting across the borough leading to: improved lighting levels generally; improvements in road safety; improvements in CCTV surveillance; benefits towards reducing anti-social behaviours and fear of crime; improvements in general wellbeing with potential increased use of outdoor evening activities in parks and around the highway network and potential enhancement of town's night time economy. Once fully installed LED street lighting will deliver in the region of 70% savings of both street lighting energy and carbon consumption and significant reduction in cyclic street lighting maintenance costs.

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 2015-20

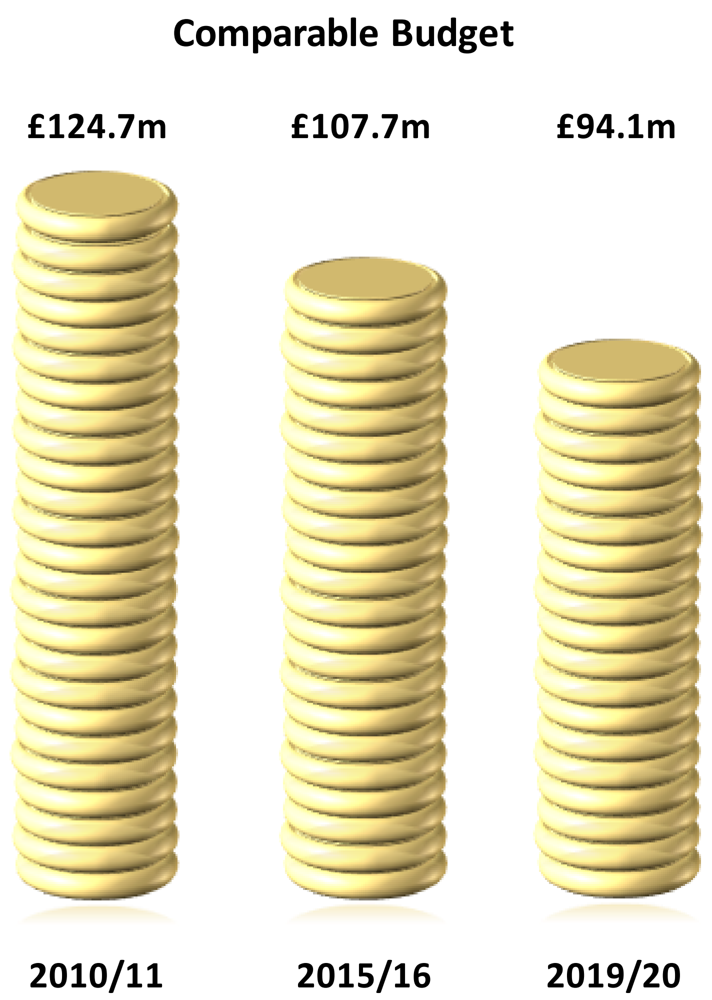


As can be seen from the above the relative importance of Council Tax and retained business rates grows over the period of the MTFS from 75% to almost 100% of the Council's income; the Council will by the end of the MTFS be much less reliant upon Government funding. To reflect this, the Council has made 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 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]

[2] These are actual cash amounts



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 decision 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 25% of the Council's net budget. 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.

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

Chart 2.6: Net expenditure by service – 2015-16

n.b. professional services has now been split with £2.6m to Human Resources and policy & communications and £0.4m of legal services to the Customer & Community Services directorate.

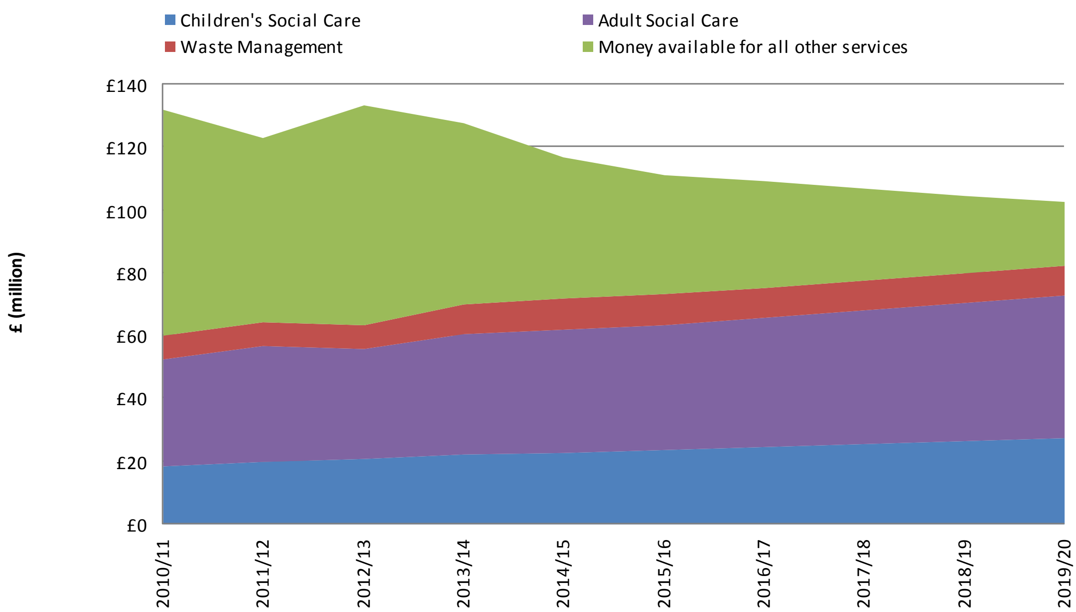
The three largest spends areas of Adult Social Care, Children's Social Care and Waste Management (the main bulk of the Housing & Environment budget) are all seeing demographically led demand growth to their budget; Slough's population as a whole is growing and this places pressure on its public services. 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 – Strategic Asset Purchase scheme

During 2015-16 the Council set aside £25m of capital funds for a Strategic Asset Purchase (SAP) scheme. The aim of the scheme is to utilise capital funds more effectively to deliver new income streams and also for the Council to purchase land and properties that will have regenerative benefit to the Council and local taxpayers. To date, the Council has purchased three commercial properties that are expected to yield a gross return in excess of £500k of new income. For 2016-17, we have set an ambitious target of £1.25m of gross income from the scheme. The purchases must be within the Slough area and so benefits local regeneration as well reducing the levels of savings required across other Council 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 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

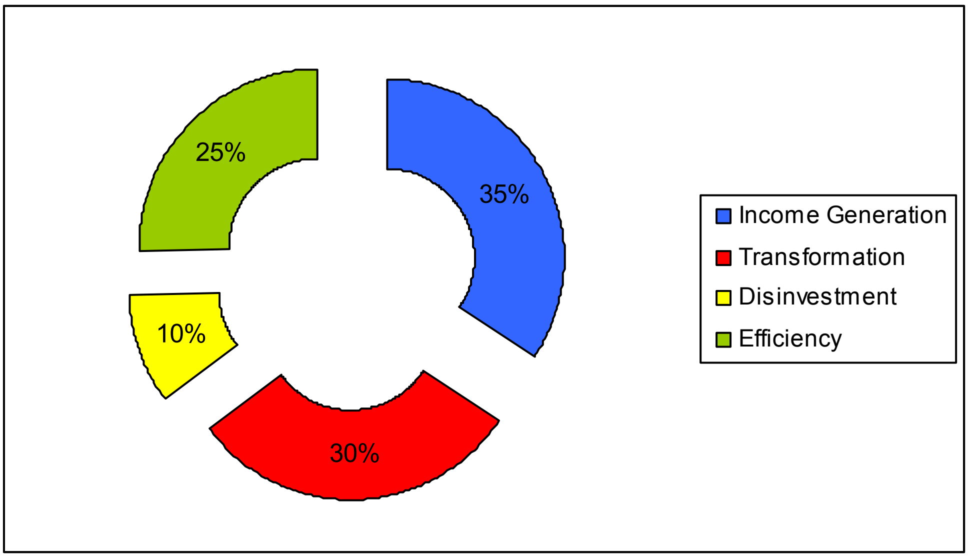
The period of the MTFS is likely to see a significant contraction in the Council's overall spend; whilst at the same time seeing a growing population base that the Council must provide services to. To ensure that these two challenges are delivered, the Council will need to undergo a period of concentrated 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.

Case Study – Highways & Transport Transformation

The implementation of the Transport & Highways Transformation project has started to create a far stronger, more resilient and effective service by creating groupings that align with the Council's 5 Year Plan, the Vision for a "Connected Slough" and at the same time deliver important financial savings. The merger of the service not only gives a significant financial saving, but will also provide the opportunity to focus the strategic direction of the service, bring a commercial attitude and provide leadership to challenge and change the way we do things. To help focus our delivery of improvements, major schemes and new development the existing Highways Development Team will be enhanced; Transport Strategy will be widened and enhanced with the inclusion of Road Safety and Integrated Transport; and we will create a single inspection regime. These changes combined with changes to some existing working practices have the potential to offer full year savings of £1m in 16/17; with a target of delivering a further £1.5m of savings under the continuing programme for 17/18. However, the amount of change required to achieve this level of saving is not to be underestimated.

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 Cabinet has already received future year's proposals and these include significant additional income generation as well a variety of transformation programmes, some of which are highlighted in the case studies included in this strategy.

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 – Slough Urban Renewal

Slough Urban Renewal (SUR), a joint venture between the Council and Morgan Sindall Investments Limited, is currently on site with the 73 unit development (23 for rent) at Ledgers Road, which is the first of several residential-led projects that will be developed in Slough. The construction programme is currently one month ahead of schedule, which will see the first affordable houses completed by May 2016. Based on the existing programme, a total of 44 homes for sale will be completed in 2016/17, however due to the combination of a buoyant market and the current pace of development, the potential exists to complete the 50 homes for sale in 2016/17, which would accelerate the repayment of the £3.2m Council loan note (representing the land value) together with the accrued interest and the 50:50 split in profit share. If this performance is achieved it would result in a profit distribution to the Council from this first development of around £1.9m (i.e. £4.9m less £1.1m x 50% and excluding repayment of the land value and interest) compared to the base case assumption at financial close of £840k. In addition to Ledgers Road, SUR is developing a pipeline of residential projects including Wexham Nursery, Montem, Slough Basin and Upton Road that could generate capital receipts totalling £17m and profit share of £10m within 5 years.

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

2015-16 adj	**Funding**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
45.13	Council Tax	48.69	49.92	51.17	52.46
29.13	Retained Business Rates	29.87	30.17	30.47	30.77
24.01	Revenue Support Grant	18.48	13.18	9.68	6.12
1.46	Education Services Grant	1.37	0.82	0.49	0.30
	NHS monies through BCF			1.40	2.60
2.6	New Homes Bonus	3.64	3.64	2.30	2.20
1.08	Other non-ringfenced grants	0.84	0.60	0.40	0.20
1.9	Collection Fund	0.84			
105.31	**Total Budgeted income**	**103.73**	**98.33**	**95.91**	**94.65**
109.98	Prior year baseline (adj.)	106.58	104.83	98.35	95.93
3.72	Base budget changes	2.30	2.90	2.90	2.90
1.89	Directorate Pressures	5.75	2.00	2.00	2.00
	Revenue impact of Capital investment	0.33	0.25	0.25	0.25
-0.5	Other adjustments	-1.10			
	Savings requirement o/s (-) / contribution to or from reserves		-4.62	0.42	0.18
-9.79	*Savings identified*	-10.13	-7.01	-7.99	-6.59
105.3	**Net Expenditure**	**103.73**	**98.35**	**95.93**	**94.67**

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 almost 4% from 2016-17 and then 1.5% for future years. Council Tax to increase by 3.75% in 2016-17 and then modelled at 1% in future years

(2) Retained Business Rates – assumed small growth in Business rates for 2016-17 and that they rise in line with inflation thereafter.

(3) Revenue Support Grant (Government grant) – includes 2016-20 figures announced by Government in December 2015.

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

(5) NHS monies through the BCF (Better Care Fund) – allocation per the Government's finance settlement. However, it is unclear as to where this is new investment or expected to go directly to the NHS

(6) New Homes Bonus – assumed growth in the taxbase and then reduces per the Government's consultation on New Homes Bonus incentives.

(7) Other non-ringfenced grants – similar assumptions through the MTFS as this relates to smaller non ringfenced grants that are announced from time to time

(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 2016-17 items are detailed in the revenue budget paper.

(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 2016-17 onwards this is the additional MRP (Minimum Revenue Provision) required increases to set aside revenue to fund capital

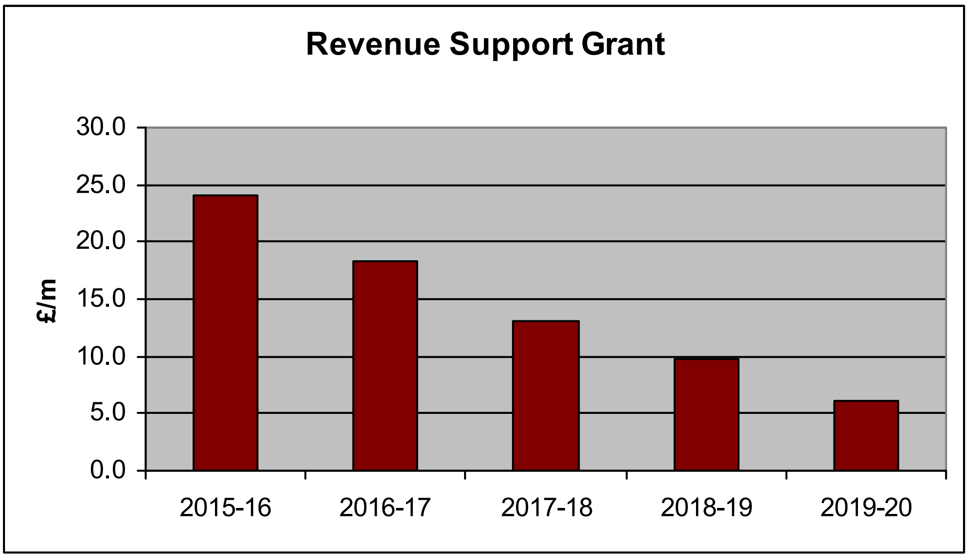
(14) Other adjustments – the use of or contribution to specific reserves, or one-off saving items that do not go into the baseline of savings.

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

Long Term Financial Position

The scale and the timeframe for Government funding reductions have been clarified as part of the draft Local Government Finance Settlement. The summary of Revenue Support Grant profile (the main Government Grant to the Council) is set out below. This shows a major reduction in the Government's funding to the Council of almost 80% from the 2015-16 baseline.

Chart 2.8: RSG summary 2015-20

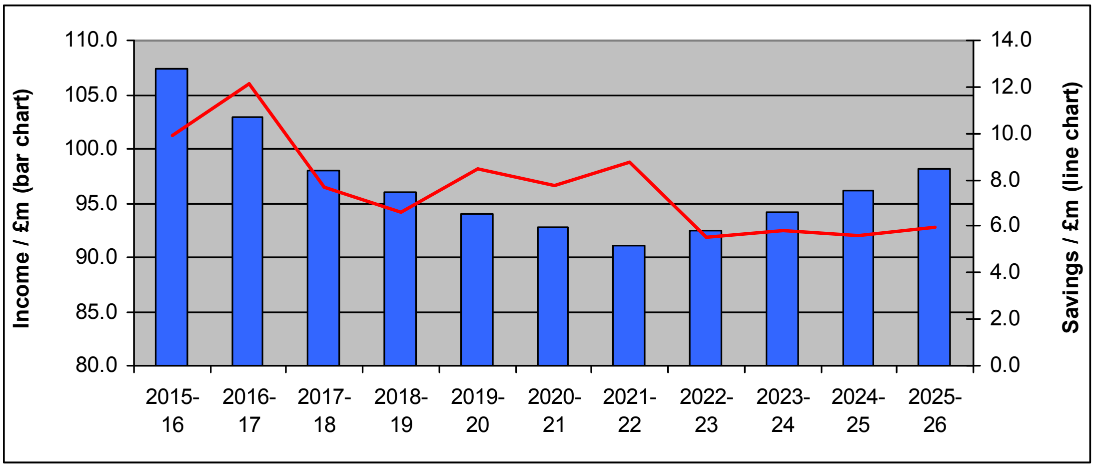


To counteract this, and as mentioned in previous sections of the MTFS, the Council will become much more reliant on Council Tax and retained Business Rates as well as seeking to generate its own new income generation streams to support local services to taxpayers.

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 £9m ending 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 2021-22, the Council's income would start to level off. The reason for this is that by this point the Council would have no 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, business continuity, reliance on ICT etc.

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 compared to forecasts / £m	Negative impact compared to forecasts / £m

Increased cost due to the new CSC organisation	1	-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]		-4
Over / under delivery of savings – Risks increasing through major transformation programme e.g. ASC and through more exposure on income generation e.g. Strategic Asset Purchase scheme	1	-3
Further Government funding reductions through specific grants		-1.5
Performance on Council investments	0.5	-0.5
Total	**3.25**	**-11.95**

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 recent financial years, though this have been mitigated going forward through the new CSO and major additional funding in Children's Social Care in the past three years.

The two largest risks come from reduced business rates and savings delivery. Since the inception of the Government's retention of Business Rates scheme, the Council has seen major volatility to its Business Rates base. Business Rates numbers are volatile as businesses demolish, convert and redevelop sites in the borough. From a savings delivery viewpoint in 2015-16 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. The Adult Social Care transformation programme remains a major risk for the Council with over £5m of savings anticipated to be delivered through this programme. In the current financial year there is likely to be a lag in the delivery of these savings. 2016-17 will have a very high savings target of circa £10m. By its very size (nearly 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	Establishment of the new organisation and additional budget provided at transfer date
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.