Committee and Date	Item
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FINANCIAL STRATEGY - 2012/13 TO 2020/21, INCLUDING PHASE 2 SAVINGS 2012/13

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1 Summary

1.1 The Council's Medium Term Financial Plan agreed by Full Council on 24 February 2011 sets out the Council's approach to managing its finances over the period 2011/12 to 2014/15. Two Financial Strategy reports have been considered by Cabinet in July and September 2011 which have provided further information on issues affecting the Council's financial position, more detail on savings plans for 2012/13 and 2013/14 and recommended approval of the first phase of 2012/13 savings. This report will provide the latest position on the Council's future resource and expenditure projections and will, in line with the agreed 2012/13 budget timetable, identify Phase 2 2012/13 budget savings for approval.

1.2 The Council's resource and expenditure projections will continue to be refined including any implications arising from the formula grant settlement due in late November. Further updates to this report will be brought before Cabinet and Council in January and February 2012 respectively including details of Phase 3 savings for 2012/13 and any future year's savings which can be agreed as part of this year's budget cycle.

1.3 This strategy is the product of significant work which has been carefully undertaken to ensure the accurate presentation of the financial landscape and effectively manage the complexities, to provide a robust way forward for the Council.

2 Recommendations

It is recommended that Members:-

2.1 Agree the Phase 2 savings for 2012/13 identified in this report at Appendix 4 and recommend them to Council for agreement on 15 December 2011;

2.2 Agree that where the implementation of Phase 2 savings extends beyond 1 April 2012, additional savings will be delivered in future years as detailed in the report, without the need for Council to duplicate decision making;

2.3 Agree the revised savings targets in 2012/13 and in the medium term (April 2013 to March 2015) and how these revised savings targets relate to savings identified as part of our financial planning process to date (Section 5.3).

2.4 Consider the main issues identified for the Council in the long term (April 2015 to March 2021) as detailed in Section 5.7 of the report.

2.5 Agree the response to CLG for the LGRR - Business Rates Retention Consultation which was returned on 24 October 2011 ahead of the consultation deadline, and is attached at Appendix 6.

REPORT

3 Risk Assessment and Opportunities Appraisal

3.1 Financial Uncertainty

3.1.1 The local authority finance settlement announced on 9 February 2011 (draft settlement announced 13 December 2010), while ostensibly a four year settlement, actually provided only a fixed two year allocation of formula grant for local authorities for the periods 2011/12 and 2012/13. The CSR 2010 only gave indications of how the overall level of funding for local authorities will change in the following two years, 2013/14 and 2014/15, and therefore provides only limited clarity of the financial landscape for the Council over the medium term.

3.1.2 The Government has recently completed a consultation on the Local Government Resource Review. As part of the work undertaken to prepare a response from the Council on the consultation, members were invited to a briefing by Neil Benn, an expert on local government funding, following Cabinet on 19 October. The Council submitted a response on the consultation by the required deadline of 24 October 2011 and a copy of this response, along with a short report and briefing paper prepared by officers, is attached at Appendix 1. The outcome of the consultation will feed into the distribution of local authority resources in 2013/14. This increases the level of uncertainty around forecasting our resources beyond 2012/13.

3.1.3 Beyond 2014/15, the projections for expenditure requirements and likely levels of funding are uncertain. However, by creating a financial strategy that looks at the longer-term and regularly updated to reflect new information, the Council will be in a stronger position to approach future challenges proactively rather than reactively. It is clear at this stage that the current funding squeeze is expected to continue well into the future, and it is likely local government will be required to make further spending reductions, in addition to those already identified.

3.1.4 While the Financial Strategy represents our approach to the mitigation of the financial uncertainty we are faced with; the financial climate over the medium to long term still presents a high risk to the authority. In addition to the known uncertainties we have planned for, there remains potential for further, as yet unrecognised, risks.

3.2 **Other Risks and Opportunities**

3.3 The Financial Strategy sets the resource parameters within which the Council can deliver or commission services to meet its priority outcomes. All risks and opportunities which have a material monetary value are considered within the strategy. Setting the Financial Strategy and agreeing detailed changes necessary to deliver the agreed budget for the next financial year by February 2012, will take into account the requirements of the Human Rights Act, any necessary environmental appraisals, the need for Equalities Impact Needs Assessments and any necessary service user consultation over and above that already taken by the Council.

4 Financial Implications

4.1 The Council's Financial Strategy identifies the financial implications of the overall strategic direction of the authority. Of particular note within this report are:

- Changes in resource and net budget requirement projections and consequent changes to savings targets;
- One off funding available in 2012/13 only of council tax freeze grant and surplus collection fund which improve the financial position in 2012/13 only
- Details of Phase 2 savings estimated to deliver £2.393m in 2012/13 and £1.725m in 2013/14;
- The projected General Reserve balances over the short to medium term
- Long term financial planning Issues identified in Section 5.7.

5 Background

5.1 Strategic Framework of Priorities

5.1.1 The annual budget and wider financial strategy help identify the approach the Council will take to deliver planned outcomes for Shropshire's citizens. The approach allows strategic planning to be carried out in a more effective way by considering service priorities, resource availability and efficiency savings that help the Council to achieve its overall goals over the short and long term.

5.1.2 The Council's Strategic Priorities are described by the following key elements, which underpin the Council's transformation programme, which itself provides the framework for the delivery of budget savings over the short and medium term:

- Flourishing Shropshire Communities;
- Greater Public Confidence;

- Better Health and Wellbeing;
- Better Education Attainment and Work Placed Skills;
- Economic Growth and Prosperity;
- Modern Infrastructure and Different Ways of Working;
- Organisational Development and Behaviour Change.

5.2 Structure of the Financial Strategy

5.2.1 Section 5.3 considers the overall financial position and how this has changed since the last Financial Strategy paper was considered by Cabinet on 14 September 2011.

5.2.2 Section 5.4 considers how issues within the current year's budget, which have been raised through the monitoring of 2011/12 budget, will impact on future years' budgets.

5.2.3 Section 5.5 considers our immediate short term financial plan; i.e. how the 2012/13 budget it is to be delivered.

5.2.4 Section 5.6 considers the rest of the Council's Medium Term Financial Strategy; that is the financial years 2013/14 and 2014/15, which represent the remaining two years in the current CSR period.

5.2.5 Section 5.7 provides an initial insight into the information to be used for a new Long Term Financial Plan for the Council, covering the period 2015/16 to 2020/21.

5.3 Current Resource, Income, and Expenditure Projections

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5.3.1 Table 1 below identifies the net savings required for each year in the period 2011/12 to 2014/15 based on the difference between the projected resources and current budget requirement assumptions. The table also shows the previously reported savings target and the difference between that and the latest projections.

Table 1: Resource, Net Budget and Savings Projections

	2012/13 (£)	2013/14 (£)	2014/15(£)
Resource Projections	217,820,410	215,314,554	209,896,448
Rolling Year Budget Requirement (Income and Expenditure Projections)	240,599,243	253,537,986	256,122,834
Revised Savings Required (Cumulative)	22,778,833	38,223,432	46,226,386
Revised Savings Required Target-Additional (Year on Year)	**22,778,833**	**15,444,599**	**8,002,954**

Savings Target as at 14 September 2011 (Year on Year)	20,253,669	9,190,456	7,284,581
Increase in Target Saving (Cumulative)	**2,525,164**	**6,254,143**	**718,373**

5.3.2 In 2012/13 the projected financial position has worsened by £2.525m. This is as a result of an increase in the Council's net budget requirement partly offset by an increase in projections of available resources, of which some are one-off. The detail behind these changes is shown in Table 2 and 3 and explained in the paragraphs below. It is important to note that in 2012/13 the full extent of the financial position is masked by one-off resources in that year which do not flow through to 2013/14 and beyond, masking other increases in that year which do have an ongoing impact. It is also important to note that the updated 2012/13 financial position increases the shortfall in savings identified against the revised target. This shortfall in 2012/13 now stands at £5.177m.

5.3.3 Overall in 2012/13 there is an increase in the net budget requirement of £3.842m which is offset by an increase in available resources of £1.317m to give a net change in the financial position of £2.525m additional financial pressure.

5.3.4 The breakdown of the change in the net budget requirement is shown in Table 2 below with more detail provided in the following paragraphs.

Table 2: Change in Net Budget Requirement since 14 September 2011

	Para Ref.	2012/13 £'000	2013/14 £'000	2014/15 £'000
Adjustment for 2011/12 unachievable Income	5.3.5	1,298		
Remove Income increases	5.3.6	1,412	1,469	1,528
One off Council Tax Freeze Grant	5.3.7	-3,225	3,225	
Terms and Conditions Changes	5.3.8	500	500	
Car allowances -45p from 40p	5.3.8	300		
Price Increases (Inflation)	5.3.9	726	226	248
Unachievable 2011/12 Savings	5.3.10	924		
Adjustment to Surplus List 3 Savings	5.3.11	994	100	
Loss of WMS Income	5.3.12	913		
Elections	5.3.13		700	-700
Total Adjustment		**3,842**	**6,220**	**1,076**

5.3.5 A substantial amount of the increase is due to adjustments for unachievable income targets. The adjustment for 2011/12 shortfall in income is the latest projection based on period 6 monitoring. This position will continue to be monitored.

5.3.6 A review is currently being undertaken on the Council's future year's income from fees and charges projections and will be reported to Cabinet in January.

This review is discussed more in section 5.5. At this stage the Council's future years net budget requirement projections assume a standstill position on income levels.

5.3.7 A significant change in our projections in 2012/13 relates to the recent Government announcement of continued support for those authorities who choose to freeze 2012/13 council tax at 2011/12 levels. This support is in the form of a one-off grant payable only in 2012/13 and for Shropshire is £3.225m.

5.3.8 Changes in terms and conditions savings reflect both the increase in travel allowance to 45p from 40p per mile and the reduction in the second year salary reduction to 1.9% rather than 2.7%.

5.3.9 The inflationary increase of £0.726m arises largely from the Waste Management Contract and includes three items in line with our policy; an amount to correct the inflation allocation for 2011/12, the best estimate of inflation for 12/13, and £0.415m for an increase in Landfill tax of £8 per tonne.

5.3.10 Unachievable 2011/12 savings relate mainly to efficiency savings, full details of which are given in the monthly monitors to Cabinet.

5.3.11 The adjustment for List 3 savings relates to a review of the long term impact of savings implemented in 2011/12. While some of the savings programme implemented have been more successful than anticipated (a notable example being the Management Review of Senior managerial posts which is estimated to deliver £0.7m more savings than projected in the medium term financial plan), overall these savings have been superseded by new initiatives.

5.3.12 The loss of WMS income relates to the sale of West Mercia Supplies, which has to be adjusted for within our revenue projections.

5.3.13 In 2013/14, the additional requirement from savings has increased by £6.254m and in 2014/15 the saving requirement has increased by a further £0.718m. The 2013/14 increase arises largely from the fall out of the one-off 2012/13 council tax freeze grant but is compounded by continued freezing of fees and charges levels, an allowance for the cost of elections in 2013/14 and full year impact of changes to terms and conditions savings.

5.3.14 In 2014/15, the increase is as a result of the revised income projections offset by an increase in council tax yield as a result in the increased base.

5.3.15 The increase in resource projections is shown in table 3 below:

Table 3: Change in Resource Projections

	2012/13 £'000	2013/14 £'000	2014/15 £'000
Formula Grant Adjustment- one year only	16	-16	
Baseline Funding (Business Rates Retention Scheme		390	101
Council Tax Base	645	248	257
Collection Fund-one year only	656	-656	
Total Movement in Resources	1,317	-34	358

5.3.16 In summary, at the end of the CSR period, 2014/15, current projections show that the savings target has increased by £9.498m which is summarised in Table 4 below.

Table 4: Increase in Savings target over the remaining CSR Period - 2012/13 to 2014/15

	£'000
Adjustment for 11/12 unachievable savings	924
Adjustment to surplus 11/12 management review savings	1,094
Adjustment of Base Level of Income	1,298
Removal of annual inflationary increases in Income (3 years)	4,409
Loss of WMS Income	913
Terms and Conditions changes	1,300
Inflation- Prices	1,200
Total increase in Budget Requirement	11,138
Offset by-Increase in Resources Available	-1,640
Net increase in Savings Target	**9,498**

5.3.17 The original savings target identified for the period to 2013/14 was £76m, of which £39m was identified for the 2010/11 and 2011/12 period. This left a balance of £37m savings to be achieved by 2013/14. With the addition of the revised budget assumptions provided above, this target has increased to £46m. Further detail on current resource, income and expenditure projections is provided in Appendix 1 (Projected Budget Requirement), Appendix 2 (Resource Projections) and Appendix 3 (Financial Assumptions).

5.3.18 Cabinet on 14 September 2011 received a report stating that the implementation of savings proposals would have delivered a £4.947m overachievement in savings by 2014/15, with the caveat that revised resource and budget projections would be considered by Cabinet in November. The impact of the revised resource and budget projections is that this overachievement in 2014/15 is now a projected shortfall of £4.550m; a change of £9.498m as shown in Table 4 above.

5.3.19 Formula Grant levels for 2012/13 have been assumed at the level set out in the two year Local Government Finance settlement. The final settlement for

2012/13 will not be received until January 2012 and could be different to our planning assumption. For future years, the projections used are the best estimates available of the Council's resources for the second half of the CSR, under the new rates retention funding methodology. **It is important to note that until the Local Government Resource Review is finalised and funding allocations confirmed in December 2012, there is considerable uncertainty about the level of funding the Council will receive, particularly in the medium term.**

5.3.20 The New Homes Bonus and Community Infrastructure Levy will both deliver alternative funding for Shropshire. These are potentially new sources of funding for the authority and will be ringfenced to ensure they represent investment in local communities to improve the quality of life for Shropshire people. Further work is being undertaken to ensure we have a prudent and affordable strategy in place to utilise these funds, without presenting risk to the authority particularly given that the funding for these initiatives in uncertain in the medium and long term. Our strategy will ensure we use available resources in ways that create real additional benefits for our local communities, by providing better infrastructure and amenities.

5.3.21 Resource, income and expenditure projections will be reviewed on an ongoing basis as information becomes available and will be reported to Cabinet and Council as part of the ongoing development of the Financial Strategy.

5.3.22 Table 5 below shows the revised savings target and how that relates to identified savings as agreed by Council on 24 February 2011.

Table 5: Savings required and Savings Targets showing (shortfall)/surplus in Savings

	CSR 'first half' (Notified Allocations)	CSR 'second half' (Indicative Allocations)		CSR 2014
	2012/13(£)	2013/14 (£)	2014/15 (£)	2015/16 (£)
Revised Savings Required	22,778,833	15,444,599	8,002,954	3,235,679 *
Savings Identified Against Target	17,602,000	24,074,000	0 All planned for 2013/14	-
(Shortfall)/ Surplus in savings- Cumulative	(5,176,933)	3,452,568	(4,550,386)	(7,786,065)

* loss of 2011/12 council tax freeze grant

5.3.23 The table above shows that in 2012/13 there is a shortfall in identified savings.

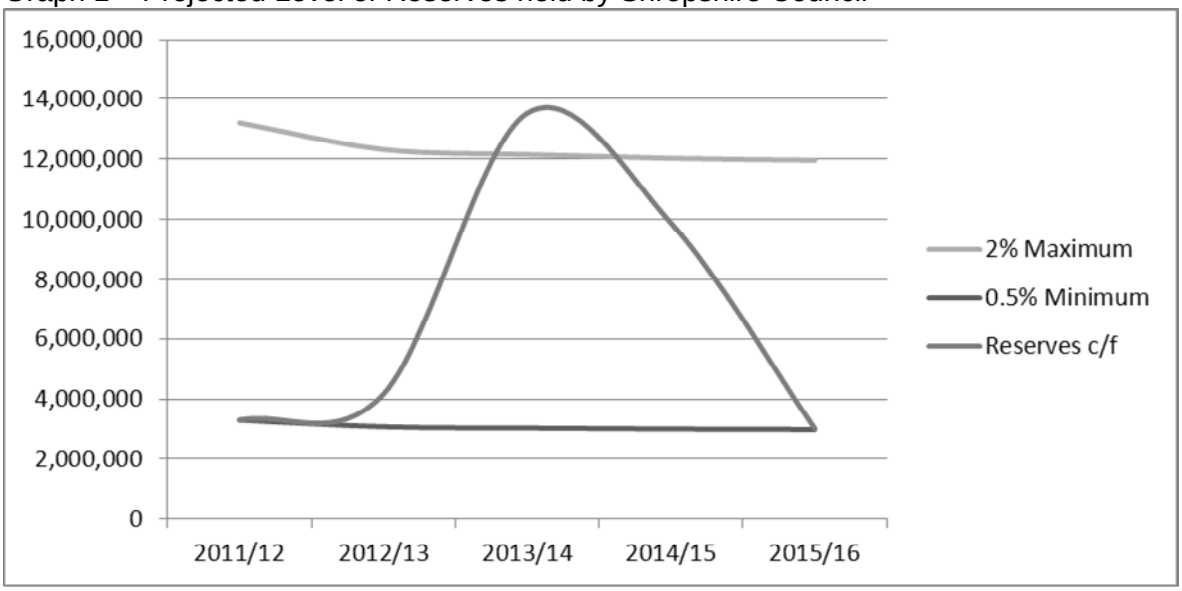
5.3.24 It should be noted that the financial position in 2012/13 is projected on the basis that 2011/12 expenditure budget issues are dealt with either from within

existing budgets or from the temporary transfers from the general reserve or other reserves and provisions which are paid back in 2012/13. The only ongoing issues from 2011/12 included in 2012/13 and future year projections are unachievable 2011/12 savings of £0.924m and an adjustment to the base level of income in line with projections from 2011/12 monitoring.

5.3.25 Using latest projections, it can be seen that there is a shortfall in the Council's budget in 2012/13 of £5.177m. In 2013/14 the situation is alleviated by the implementation of the 2013/14 savings target of £24.074m. This overachievement in 2013/14 is essential in ensuring a robust level of general reserves is put in place for the Council at the earliest, realistic, opportunity. These savings alone are, however, insufficient to balance the Council's budget beyond 2014/15. In 2015/16 there will be the added pressure of the loss of 2011/12 council tax freeze grant. In addition the table includes the financial implication of the removal of Council Tax Freeze Grant in 2015/16. Current savings plans have been identified for 2012/13 and 2013/14. It will be necessary to consider the position for 2014/15 and beyond in future Financial Strategies and the means of delivering a balanced budget through savings targets or increases in Council Tax.

5.3.26 The Council has an agreed policy to hold a general fund balance of between 0.5% and 2.0% of gross revenue budget (in reality this means holding reserves at a level between £3m and £14m). In addition, a risk assessed level of general reserves was agreed by Council at £13m. Consideration of the level of general fund balance carried forward at the end of year provides a useful check on the impact not only of savings targets and their achievement, but also of the impact of one-off funding and costs. At the present time, we are estimating that we would only be able to hold reserves at the minimum level identified above (around £3m to £4m) for 2011/12 and 2012/13. However, in 2013/14, based on the assumed over-achievement of savings in that year, and through a budgeted contribution to reserves of £5.9m, it is envisaged that reserves would grow to approximately £13.5m. At the present time, the council has not considered savings targets for 2014/15 and beyond. The current projections for 2014/15 are that savings of £4.55m would be required and in addition the loss of Council Tax Freeze grant in 2015/16 would increase the saving target in that year by £3.2m. Until the savings targets in these years are considered, the impact on general reserves would be to reduce the balance to the minimum level by 2015/16. This is demonstrated graphically below.

Graph 1 – Projected Level of Reserves held by Shropshire Council



5.3.27 The following should be borne in mind :

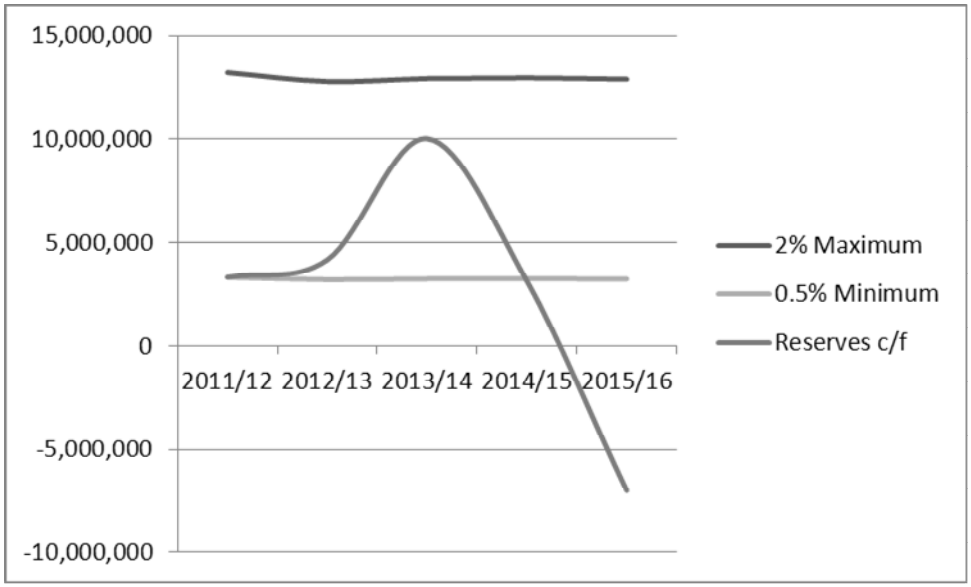
i) The projections cannot, at this stage, quantify the potential impacts of changes to settlement figures by grant reduction in national control totals for the second half of the CSR and / or the local government resource review;

ii) There is no scope for reducing the saving targets, or amending resources projections;

iii) There is limited scope, particularly in the short term, to deal with in-year budget shortfalls or overspends on a year by year basis through the general reserve

iv) In 2015/16, the loss of council tax freeze grant could be mitigated by an increase in Council tax of 2.5%.

5.3.28 The graph below provides an example of the impact on general fund balance of an additional loss of resources of 5% from 2013/14 and beyond. Clearly, the impact of such a scenario provides the justification for providing a robust level of reserves for the Council.



5.3.29 A consequence of iii) above is that the Council does not have the flexibility to utilise the limited reserves in other ways over the current spending review period.

5.3.30 An alternative approach would be to seek deeper spending cuts in 2012/13 or 2013/14, before major changes in service delivery have been put in place. However, this risks significant cuts of Council staff jobs and services for the public.

5.4 Current Year Budget (2011/12)

5.4.1 Cabinet receive monitoring reports each month providing detail on the management of the current year budget. There are three key risks associated with the deliverability of a balanced budget for 2012/13. These are:

- Delivering £32.303m savings agreed by Council on 24 February 2011;
- Managing in-year service pressures which at period 6 are estimated to deliver a £1.557m overspend in 2011/12;
- Managing one off redundancy costs associated with saving savings which could not be calculated accurately at an early stage.

5.4.2 **As a result, there is no financial flexibility in the current year, unless additional spending reductions can be found which are capable of being implemented quickly. However, these would create a high risk of service disruption and loss of jobs.**

5.4.3 While monthly monitors will provide detail of how the current year budget is being managed; the Financial Strategy considers how and whether 2011/12 issues impact on future years. The assumption within the Financial Strategy is that in-year service expenditure pressures and one-off redundancy costs will not have long term implications, but that there will be a shortfall in the delivery of the 2011/12 savings target. In addition, the pressures identified in the budget as a result of shortfall in income against budget have been adjusted

for. The need to adjust for income levels in future years will continue to be reviewed throughout 2011/12.

5.4.4 Of the £32.303m 2011/12 savings identified, it is estimated that £0.924m may not be achieved with the plans currently in place. As a result, while one-off measures will balance the budget in 2011/12, for example the implementation of a spending freeze, alternative measures may be required in future years. The net budget requirement has been amended in future years to include 2011/12 unachievable savings of £0.924m.

5.5 Short Term Financial Plan (2012/13)

5.5.1 The revision of resources available and the Council's net budget requirement have increased the savings required in 2012/13 as detailed in Section 5.3 above. This has resulted in a revised shortfall in savings identified in 2012/13 of £5.177m. Unless some of 2013/14 savings can be brought forward to 2012/13, and/or additional in year savings identified, we have assumed this amount will be funded from the general reserve.

5.5.2 In 2012/13 savings totalling £17.602m are to be implemented. Of these, £8.107m have been agreed by Council on 22 September as Phase 1 savings. These Phase 1 savings also presented a further saving in 2013/14 of £4.701m.

5.5.3 This report identifies £2.393m of 2012/13 Phase 2 savings which will deliver a further £1.725m in 2013/14. The total savings to be considered at Phase 2 has been reduced by £1.152m made up of £0.982m from income and £0.170m from a review of out of county placements. These savings will now be considered at Phase 3. The corresponding 2013/14 saving relating to these areas is £1.161m.

5.5.4 Phase 3 savings will be considered by Cabinet in January 2012 for recommendation to Council in February 2012, and will deliver the remaining £7.102m of 2012/13 savings. As part of Phase 3, a further £17.648m of 2013/14 savings can be considered.

5.5.5 Details of phase 2 savings are contained within Appendix 4 to this report.

5.5.6 An updated budget timetable for setting the 2012/13 budget is attached at Appendix 5, identifying when Cabinet and Scrutiny Committees will have the opportunity to consider proposals on how the agreed savings are to be implemented.

5.5.7 As identified in section 5.3, the projections of the Council's net budget requirement in 2012/13 and future years include assumptions for the level of income from fees and charges. As part of the 2011/12 budget, the policy for increasing fees and charges was reviewed and as a result the level of fees and charges included in 2011/12 budget was significantly increased from the

level in 2010/11 budget. The policy implemented involved distinguishing between fees and charges which could be increased at the discretion of the local authority and those fees and charges which were governed by statutory or other guidelines. For the element of discretionary fees and charges, the policy the Council agreed to implement for the level of annual increase was RPI at the September preceding the commencement of the financial year plus 4%. In 2011/12 budget this meant that an increase of 8.6% was implemented on the 2010/11 budgets for discretionary fees and charges.

5.5.8 A number of issues have been raised as part of 2011/12 monitoring around the level of achievable income from fees and charges. As a result, the sustainability of the current levels of income from fees and charges and the potential for further increases have been questioned. A review of all fees and charges is currently taking place in the following manner:

- A breakdown of the total fees and charges budget across service areas;
- The split of the fees and charges budgets between those where increases are discretionary and those where increases are not solely at the discretion of the Council;
- Against each income stream, any issues identified with the achievement of the 2011/12 budget;
- An indication of whether the 2011/12 budget is sustainable in 2012/13 and future years;
- An indication if further increases for 2012/13 are sustainable
- Based on the above, a categorisation of each income stream into one of the following:
    - Recommend to freeze at 2011/12 levels;
    - Recommend for policy increase (RPI + 4%);
    - Recommend for alternative approach based on review of demand, elasticity and risk assessment.

5.5.9 Until this work is complete, it would be imprudent to continue to assume the current planning assumptions around income from fees and charges are achievable. Consequently we have reduced our income projections to reflect current achieved levels as detailed in section 5.3, until the review is completed. However the achievability of such income will be a consideration in the categorisation of income streams and provided within the complete review of Fees and Charges to Cabinet in January 2012.

5.6 Medium Term Financial Plan (2013/14 to 2014/15)

5.6.1 At the time of the CSR in October 2010, a number of assumptions were made to help predict grant settlements for 2013/14 and 2014/15. Since then projections on government funding for 2013/14 onwards have been reviewed in the light of the Local Government Resource Review. A briefing paper on the LGRR and Shropshire's response to the consultation are contained in Appendix 6

5.6.2 From 2013/14 onwards, the resources the Council received previously by way of formula grant will be received as a combination of locally collected business rates and top up grant from the Government.

5.6.3 The current resource projections are based on the best estimates available of the total the Council will receive under the new funding mechanism. Until the final detail of the mechanism to be used to allocate funding to local authorities is released, there is a risk that the Council's projections are inadequate. In addition, even under a new funding mechanism, the total amount available for distribution to local authorities will sit within the national control totals which could change from those indicated at the time of the CSR 2010. A particular risk is the potential for the Government to top slice the amount to be made available for New Homes Bonus from the total amount to be received by local authorities from business rates or top up grant.

5.6.4 The 2013/14 position assumes that all of the 2012/13 savings are delivered in full in 2012/13. Any slippage in the implementation of the savings or failure to achieve the full savings will impact on future years.

5.6.5 A rolling Medium Term Financial Plan will continue to be developed each year to ensure the Council is adequately prepared for all known financial pressures, and it is envisaged that greater detail on the delivery of 2013/14 and 2014/15 savings will be available with each iteration of the Financial Strategy.

5.7 Long Term Financial Plan (2015/16 to 2020/21)

5.7.1 To develop our Resource and Expenditure projections over the longer term, it is necessary to consider what drives budget changes, and to then develop appropriate forecasting or control this change. In the September Financial Strategy report, the following key drivers of change were identified, in addition to inflation:

i) Economy
ii) Demography
iii) Policy
iv) Technology
v) Climate

5.7.2 Managers have also identified the following service specific drivers and the anticipated changes under each of these headings. It is apparent from the initial information that change elements under each heading identified have the potential to impact on specific groups of services and residents. It is also recognised that there is a need to distinguish between change drivers which we can control and take action to address, and those which can lead to uncontrollable changes in service needs and costs.

5.7.3 <u>Economic</u> – The need to recognise the impact of the economic climate upon Shropshire's residents and businesses. How can we reduce burdens on

businesses and stimulate growth? The level of economic activity will affect the demand for services; for example, rising levels of unemployment would increase welfare demand (rebates). It could also cause switching behaviours, such as increased bus or cycle usage together with reduced parking revenue. Under the proposals for Rates Retention, economic activity will be a key driver in determining the Council's resources. Work is currently being undertaken to encourage inward investment in the County, including Shropshire Council's 'Invest in Shropshire' initiative and the development of the Marches Local Enterprise Partnership with Herefordshire and Telford & Wrekin. In the future, the new funding mechanism will require the Council to actively increase housing provision, business opportunities and job creation, to maximise income, which will no longer be related to needs and underlying pressures in the county through, for example, demographic growth. In addition, many of Council services would be impacted by price increases in crude oil which have the potential to significantly impact on our ability to deliver those services in the future.

5.7.4 Demographic - Changes in population, household formation and the provision of accommodation will bring changes in demand, as well as potential alterations to Government grant. The analysis of population change should differentiate over age categories, and should be broadly aligned across four ages: pre-school, learning, working and retirement. The Financial Strategy currently provides for demographic growth in both older people and Adults with Learning Disabilities. Work is on-going to consolidate demographic modelling performed within individual services and by Council partners (e.g. Health) in order to ensure consistent and reliable data. Demographic growth has implications for many of our services.

5.7.5 Policy - External examples from Government include the requirement to move to individualised care packages, subsidy for a nil Council Tax change, and the cessation of specific grants. The Government can also signal changes through an alteration to resource arrangements, with the proposal for Business Rates Retention being a prime example, but also New Homes Bonus and Community Infrastructure Levy. A change in standards – e.g. safeguarding – as opposed to new policies, can increase or reduce demand for resources. Another example is the Government's proposals to localise Council Tax Support, whilst at the same time reducing the totality of funding for this by 10%. Policy changes can affect low income families, often increasing the demand for services. All policy changes require evaluation to understand any effect on Resource or Spending Projections. Evaluation of policy changes is undertaken across all services and the financial impact evaluated by the Forward Planning Team.

5.7.6 Technology - Citizen Enablement has brought about changes in demand and expectation of the public spending increases (FOI requests and open public data), decreases (online information gathering and points of access) and changing economic activity (home working). Internal improvements to processes are regarded as a response to change.

5.7.7 Climate - Colder winters, increased rain, and/or hotter summers require changed responses from the Council and result in financial pressures. At an ecological level, the carbon and waste responses are examples of worldwide requirements. In addition, there is the need to consider the implications of Carbon Taxation on all services, regardless of whether we directly run them in future.

5.7.8 The Council's transformation programme is focussed on radically changing services and the way the Council works. The impact of this work will be felt over the medium term and will provide the pathway to managing services in the future and a basis for mitigating the longer term drivers identified. An example of this could be that, while the approach to transforming adult social care to respond to demographic pressures in older people is anticipated to deliver savings in the medium term, its legacy will be to provide an approach which allows us to manage the continued impact of extra demand from demographic growth in this sector, which will not cease simply because we have transformed the services we provide.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Medium Term Financial Plan 2011/12 to 2013/14 – Budget Paper (Council 24 February 2011) Medium Term Financial Plan – Strategic Framework of priorities for reshaping the role of the Council and redesigning service delivery (Council 24 February 2011) Financial Strategy 2012/13 to 2020/21 – Cabinet 20 July 2011 Financial Strategy 2012/13 to 2020/21 – Cabinet 14 September 2011
Cabinet Member (Portfolio Holder) Keith Barrow - Leader
Local Member All
Appendices Appendix 1 Resource Projections – Financial Summary 2012/13 to 2014/15 Appendix 2 Projected Budget Requirement – Resources Projections Summary 2012/13 to 2014/15 Appendix 3 Key Financial Assumptions 2011/12 to 2014/15 Appendix 4 Phase 2 Savings 2012/13 (and 2013/14) Appendix 5 Budget Timetable

Appendix 6 Business Rates Retention – Consultation Response & Associated reports and briefing.

Appendix 1

SHROPSHIRE COUNCIL - FINANCIAL SUMMARY 2012/13 to 2014/15

	2012/13 £		2013/14 £		2014/15 £	
Expenditure						
Original Gross Budget Requirement *(As reported in 14 September 2011 Cabinet Report)*		622,427,149		640,160,550		648,374,628
Adjust for:						
- 2011/12 Unachieveable Savings		924,000				
- Additional 2011/12 List 3 Savings		(300,000)		0		0
- Changes to T&C Savings (1.9% not 2.7%)		500,000		500,000		
Inflation						
- Prices		3,038,000		2,641,646		2,772,317
- Pay		17,300		1,071,783		1,082,501
- Pension Costs		302,220		315,810		330,030
Committed Growth						
- Debt Charges (Reduced as part of Savings)		2,600,000		2,600,000		2,600,000
New Growth						
- Demography: Older People		240,000				
- Demography: Adults with Learning Disabilities (Transition Cases)		540,000		165,000		
- Carbon Reduction Commitment Tax		846,000				
- Personal Social Services		2,920,730		219,839		
- Contribution to Balances		5,000,000				(5,000,000)
- Elections				700,000		(700,000)
- Car Allowances increase from 40p to 45p per mile		300,000				
Equivalent Increases/Reductions in Expenditure (Passported Increases/Reductions in Grants)						
- Early Intervention Grant	609,030					
- Learning Disability & Health Reform Grant	106,821					
- Lead Local Flood Authorities Grant	89,300	805,151				
Gross Budget Requirement (Excluding Internal Recharges)		640,160,550		648,374,628		649,459,476
Income						
Government Grants	(293,539,500)		(297,569,316)		(292,844,651)	
- Ancipated Changes in Specific Grants	(805,151)		1,500,000		1,500,000	
- 2012/13 Council Tax Freeze Grant	(3,224,665)		3,224,665			
Revised Government Grants Going Forward		(297,569,316)		(292,844,651)		(291,344,651)
Other Grants & Contributions		(20,424,760)		(20,424,760)		(20,424,760)
Fees & Charges	(83,778,390)		(81,567,231)		(81,567,231)	
- Additional Income (Removed from Base- addiional income in Phase 3 Savings)						
- Loss of WMS Surplus	913,480					
- Projected Shortfall in 2012/13 Income targets based on 2011/12 Period 6 monitior	1,297,679					
Revised Fees and Charges		(81,567,231)		(81,567,231)		(81,567,231)
Total Estimated Income (Excluding Internal Recharges)		(399,561,307)		(394,836,642)		(393,336,642)
Net Budget Requirement (excluding DSG)		240,599,243		253,537,986		256,122,834

Appendix 2

Shropshire Council Resource Projections 2012/13 to 2014/15

	2012/13 (£)	2013/14 (£)	2014/15 (£)	Assumptions
Formula Grant (RSG/NNDR)	95,251,254	87,132,840	86,636,183	
Assumed Grant Loss	(8,118,414)	(496,657)	(5,674,670)	
Amended Formula Grant/ Assumed Baseline Funding (Business Rates Retention Scheme)	87,132,840	86,636,183	80,961,513	RSG/NNDR as per DCLG provisional settlement figure in 2012/13. Baseline Funding (Business Rates Retention Scheme) as per initial LGA estimates in 2013/14 and 2014/15.
Council Tax				
Taxbase	109,917	110,137	110,537	0.5% increase in 2012/13 and 0.2% increase in 2013/14 and 2014/15
Council Tax	129,631,164	128,278,371	128,534,935	No increase for 2012/13, equalise down in 2013/14 and no increase in 2014/15
Collection Fund Surplus	1,056,406	400,000	400,000	
Total Available	217,820,410	215,314,554	209,896,448	

Appendix 3

Shropshire Council - Medium Term Financial Plan Key Assumptions 2011/12 – 2014/15

Inflation Assumptions

	BASIS	2012/13	2013/14	2014/15
Pay inflation	Assumed that a pay freeze will be in place for ta further year, with a 1% pay increase from 2013/14 onwards.	0.00%	1.00%	1.00%
Prices Inflation	This has been calculated on the contractual bases of the main contracts that the Council has in place. Inflation rates range from 1% to 10% on individual contracts. Energy costs are assumed to be growing at 10% p.a.	*Based on contractual price inflation and 10% pa for energy costs.*		
Income Inflation	The Council approved the policy of applying RPI + 4% to fees and charges. A review of all fees and charges is being undertaken and will be reported to Cabinet in January 2012. For this reason, all assumed increases in charges have been removed from the Financial Strategy.	0.00%	0.00%	0.00%
Pensions Increase	The 2010 actuarial valuation has indicated that employer contributions should be split into 2 separate elements, a percentage of pensionable pay and a lump sum to provide for a reducing payroll. The percentage of pensionable pay will not increase within the 4 year MTFP period, however the lump sum will be inflated each year.	Adjusted CPI Inflation as at March 2010 +1.5% on lump sum each year. *(The CPI figure is 3% and is the market expectation for long-term inflation (RPI basis) adjusted for Inflation Risk Premium (IRP) and CPI Indexation.)*		

Council Tax Assumptions

	BASIS	2012/13	2013/14	2014/15
Council Tax Taxbase	Assumed an increase in the Council Tax taxbase of 0.5% in 2012/13 and 0.2% in both 2013/14 and 2014/15.	0.50%	0.20%	0.20%
Council Tax Increase	A Council Tax freeze has been applied for 2012/13, with Council Tax equalising down to the lowest value in 2013/14. No increase has been assumed again in 2014/15, thereby freezing Council Tax for three consecutive years (and reducing it for some residents) despite growing cost pressures.	0.00%	Equalise Council Tax down	0.00%

Appendix 3

Grant Assumptions

	BASIS	2012/13	2013/14	2014/15
Formula Grant / Baseline Funding	The Formula Grant provisional settlement figure from DCLG has been detailed for 2012/13. In 2013/14 and 2014/15 Baseline Funding (Business Rates Retention Scheme) figures as per LGA initial estimates have been detailed.	As per DCLG	As per LGA initial Baseline Funding estimates	As per LGA initial Baseline Funding estimates
Specific Grants	Specific grant allocations have been detailed for the Core Revenue Grants in 2012/13 however confirmation is still awaited on a number of specific grants. No indication has been made as to the likely value of specific grants in future years, therefore for prudence, a 5% reduction has been assumed in the following two years.	As per DCLG	-5.00%	-5.00%

New Growth and Demography

	BASIS	2012/13	2013/14	2014/15
Demography: Older People	Additional growth is required to reflect the latest projections of increasing numbers of older people requiring social care services.	240,000	No further Growth	No Further Growth
Demography: Adults with Learning Disabilities (Transition Cases)	This growth has been calculated based on the latest numbers of children with learning disabilities that will transfer into adult social care over the next 3 years.	540,000	165,000	No Further Growth
Carbon Reduction Commitment Tax	The Council will incur additional costs through the Carbon Reduction Commitment. Costs have been calculated based on £22 per tonne of carbon emissions, which will be offset in future years by savings in energy costs.	846,000	No Further Growth	No Further Growth
Personal Social Services	The Government announced additional grant would be received to reflect the new responsibilities for local authorities on personal social services. Details of Shropshire Council's allocation are unclear therefore the grant allocations have been calculated based on national averages.	2,920,730	219,839	No Further Growth
Contribution to Balances	Contributions to balances have been built in for 2011/12 and 2012/13 so that by 2013/14, the level of general balances should stand at £13m which is in line with the risk based calculation performed on the Council's general fund balance, and already agreed by members.	5,000,000	Maintain contribution for 2nd year	Remove contribution from base budget (5,000,000)

Appendix 4

Savings 2012/13- Phase 2 to be considered by Cabinet 16 November 2011 and Council 15 December 2011

Decisions regarding the Phase 2 2012/13 savings detailed below also relate to the 2013/14 savings where applicable.

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Reduce day care and growth of personalised budgets	Yes - No. tbc	3,632	250	250	Promoting independence and managing thresholds. Develop the market to encourage independent and voluntary sector providers to offer more creative alternatives to traditional support for clients with a personal budget. As the numbers of people with personal budgets increase a wider range of cheaper, more varied alternatives will enable personal budgets to achieve more and better outcomes.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will have a positive impact in promoting independence and alternative community based opportunities for individuals such as supported employment. The use of personal budgets will enable individuals to purchase flexible care arrangements to meet changing levels of need for a range of providers.

Appendix 4

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Implement electronic home care monitoring	No	8,682	350	100	Savings linked to new investment. On-going project from 2011/12 will achieve further efficiencies in 2012/13 and 2013/14.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will have a positive impact in ensuring that individuals are only charged for delivered care hours.

Appendix 4

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Restructure Adult and Care Management	Yes – No. tbc	20,801	188	0	Savings linked to new investment.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will have a minimum impact on services provided to individuals.

Appendix 4

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Cancel Homecare Contract	No	825	30	0	Savings linked to new investment.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will have a minimum impact on services provided to individuals and may be replaced by support from voluntary organisations.

Appendix 4

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Reduce admissions to residential care	No	14,166	875	675	Reducing residential expenditure. Maintain admissions to residential care in line with national best practice (target 40% or below of budget spent on residential care). We are looking to reduce our expenditure on residential care by 25% over the next 3 years on the following basis: We believe that people should be supported as far as possible and as long as possible to retain their independence in their own home. We will also ensure that our current eligibility criteria is adhered to, this should reduce the number of placements made. We will look at an incentive scheme for providers for short term placements. Working with health partners on the virtual ward. Develop a shared lives scheme for older people and adults with a physical disability similar to that offered to adults with learning disability.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will have a positive impact in promoting independence. The use of personal budgets will enable individuals to purchase flexible care arrangements to meet changing levels of need for a range of providers. The use of assistive technology will support people to remain at home for longer.

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Service Redesign (People) Assessment and Eligibility					**Stephen Chandler**	
Target reduction in cost of residential placements	No	14,166	200	200	Reducing residential expenditure. The Council currently spends a large amount of money paying above our standard rates. We are working with Shropshire Partners in Care to ensure that when a client enters a residential or nursing homes they are fully informed of the contribution that the Council may make should their capital fall below the threshold. We will look at our brokerage model to ensure that we are negotiating the best possible price for a placement.	Stakeholders: • vulnerable adults in Shropshire – older people, adults with learning disabilities, adults with physical disabilities, adults with sensory impairment and adults with mental health needs including autistic spectrum disorder • family carers • voluntary sector providers • independent sector providers • PCT • South Staffordshire and Shropshire foundation trusts • health and social care professionals EINA only identified low impact areas as this proposal will ensure the cost of residential care is kept to a minimum with lower usage through supporting people to remain at home for longer.

Appendix 4

SAVINGS	POSTS DELETED	TOTAL BUDGET £'000	BUDGET SAVINGS 2012/13 £'000	BUDGET SAVINGS 2013/14 £'000	DETAILS / RISKS / IMPLICATIONS	STAKEHOLDERS & EINA IMPLICATIONS
Contract Renegotiation					**Mike Morris**	
Review on-going contract terms and financing arrangements	n\a	**QICS** 3,009 **Waste** 19,136	500	500	No service implications, but will require detailed negotiations over the next 2 years. Expert advice already taken and work underway.	**QICS PFI** We envisage that any savings achieved from this PFI would be related to renegotiation / repositioning of financing arrangements, neither of which will have any impact on any service user or other stakeholders and no EINA is required. **Waste PFI** We are in negotiation across a range of measures most of which will involve finance arrangements. The need for an EINA would come about if there were any changes to the service and that would be undertaken at the point when those changes were identified.
Total Proposed Savings			**2,393**	**1,725**		

Appendix 5

Financial Strategy Timetable for 2012/13 Budget Decisions

Date	Meeting	Item (s) for Discussion
Wednesday 20 July, 12.30pm	Cabinet	Financial Strategy 2012/13-2020/21
Wednesday 3 August 2011	Cabinet	
Wednesday 14 September 2011, 12.30pm	Cabinet	Financial Strategy 2012/13-2020/21 second iteration. Update on resource and expenditure projections Recommend Phase 1 savings to Council
Thursday 15th September 2011, 10.30am	Enterprise and Growth Scrutiny	Procurement savings
Thursday 15th September 2011, 5pm	Protecting and Enhancing our Environment Scrutiny	Carbon savings Integrated Highways and Streetscene Contract
Monday 19 September 2011, 10am	Joint meeting, Safe and Confident Communities / Healthy Communities Scrutiny	Assessment and Eligibility savings Children's Centres savings
Wednesday 20 September 2011, 2.30pm	Performance and Strategy Scrutiny committee	Financial Strategy 2012/13-2020/21 second iteration. Update on resource and expenditure projections Consideration of all other Phase 1 savings to Council
Thursday 22 September 2011, 10am	Council	Financial Strategy 2012/13-2020/21 Agree Phase 1 savings
Wednesday 16 November 2011, 12.30pm	Cabinet	Financial Strategy 2012/13-2020/21 Recommend Phase 2 Savings to Council
Monday 28 November, 10am	Healthy Communities Scrutiny	
Wednesday 30 November 2011	Performance and Strategy Scrutiny Committee	Financial Strategy 2012/13-2020/21 Phase 2 Savings to Council

Appendix 5

Date	Meeting	Item (s) for Discussion
Late Nov/Early Dec		Formula Grant Announcement - Draft
Thursday 1 December 2011, 10.30am	Enterprise and Growth Scrutiny	
Monday 5 December 2011, 5pm	Protecting and Enhancing our Environment Scrutiny	
Wednesday 7 December 2011, 2.30pm	Safe and Confident Communities Scrutiny	
Wednesday 14 December 2011, 12.30pm	Cabinet	tbc - Financial Strategy 2012/13-2020/21 including update on Draft Formula Grant Settlement.
Thursday 15 December 2011, 10am	Council	Financial Strategy 2012/13-2020/21 Agree Phase 2 savings
Wednesday 11 January 2011, 12.30pm	Cabinet	Financial Strategy 2012/13-2020/21 Recommend Phase 3 Savings to Council Income Review
Wednesday 11 January 2012, 2.30pm	Safe and Confident Communities Scrutiny	
Tuesday 13 January 2012, 10.30am	Enterprise and Growth Scrutiny	
Friday 16 January 2012, 10am	Healthy Communities Scrutiny	
Friday 16 January 2012, 5pm	Protecting and Enhancing our Environment Scrutiny	
Wednesday 18 January 2012, 2.30pm	Performance and Strategy Scrutiny Committee	Financial Strategy 2012/13-2020/21 Phase 3 Savings

Appendix 5

Date	Meeting	Item (s) for Discussion
January 2012		Final Formula Grant Settlement
Wednesday 8 February 2012, 12.30pm	Cabinet	Tbc - Financial Strategy 2012/13-2020/21 including update following final settlement Agree Final Budget Strategy Council Tax Resolution Housing Revenue Account 2012/13 Capital Strategy 2012/13-2015/16
Thursday 23 February 2012, 10am	Council	Financial Strategy 2012/13-2020/21 Agree Phase 3 savings Agree Final Budget Strategy Council Tax Resolution Housing Revenue Account 2012/13 Capital Strategy 2012/13-2015/16

Appendix 6

Local Government Resource Review – Business Rates Retention

There follows:

A. **Short Report to Members regarding the Business Rates Retention Consultation**
B. **A briefing note about the consultation**
C. **Shropshire's response to the consultation**

A – Business Rates Retention Report

6 Summary

6.1 The launch of the Localism Bill and the release of the Government's essential guide to "Decentralisation and the Localism Bill" in December 2010 indicated that one of the government's expectations from the localism agenda was to increase local control of public finance.

6.2 On 17 March 2011, the Secretary of State for Communities and Local Government, Eric Pickles, announced the launch of the Local Government Resource Review. The first phase of the review considers the way in which local authorities are funded with a view to giving local authorities greater financial autonomy. The review also aims to strengthen the incentives to support the generation of local economies by ensuring that the benefits of economic growth are reflected in the resources authorities have. With this aim in mind, a consultation paper on Relocalisation of Business Rates was released by CLG on 18 July 2011. A response to the consultation paper was required by 24 October 2011.

6.3 This paper provides a briefing on the issues contained within the Local Government Resource Review and includes Shropshire's response to the consultation. The response made includes comments made by members following the briefing by Neil Benn on 19 October 2011.

REPORT

7 Risk Assessment and Opportunities Appraisal

7.1 The proposals to change the way Local Government is financed present both risks and opportunities.

7.2 From a financial point of view, there is the risk that the amount of funding Shropshire receives via the proposed funding mechanism is less than would have been received under the existing formula funding mechanism. Shropshire's response to the consultation paper seeks to mitigate this risk by asking Government to ensure the starting amount of grant is adequate, and relates to the current projections based on the CSR; that top ups received by Authorities are linked to RPI; and that changes in need are taken into account in a timely manner. These risks will not become clearer until the final proposals for the operation of the new funding mechanism are finalised.

7.3 There is also reputational risk going forward as Central Government removes itself from the accountability for local resources. The amount of resources a Local Authority has would be considered to be determined locally. However, in practice Shropshire will still rely heavily on a top up from Central Government. This initial amount and any annual increase in it and indeed any increase in locally raised business rates retained locally will be determined by Central Government policy.

7.4 From an opportunities point of view, there is the potential for Shropshire to retain some or all of the growth in local business rates. The Council's transformational priorities include Economic Growth and Prosperity and it is important to recognise the impact the outcome from this could now directly have on the amount of resources the Council receives.

7.5 The risks and opportunities have been considered when drafting the response to the consultation paper and will continue to be evaluated as the proposals are developed and the final funding mechanism is released.

8 Financial Implications

8.1 The Council's Financial Strategy contains projections on resources beyond 2013/14. The projections used have been revisited in the light of the potential changes in local

government funding and at present do not need revising. Resource projections will be kept under review as the details of the funding proposals become clearer.

9 Briefing Paper on the Local Government Resource Review (Phase One)

9.1 A briefing Paper on the Local Government resource Review is follows.

10 Response to Local Government Resource Review Consultation Paper

The response to the Consultation paper follows. The deadline for the response to CLG was 24 October 2011.

B – Business Rates Retention Consultation – Briefing Note

1. Local Government Resource Review

1.1. On 17 March 2011 the Secretary of State for Communities and Local Government, Eric Pickles, announced the launch of the Local Government Resource Review.

1.2. The aim of the review is to secure a shift of power from Westminster to people by giving new powers to local authorities, communities, neighbourhoods and individuals.

1.3. The first phase of the Local Government Resource Review is looking at giving local Councils greater financial autonomy. The second phase of the review will look at extending this to communities and local people through Community Budgets. And, it will look at providing greater flexibility for local authorities, their partners and communities to use their resources more effectively.

2. Phase One - The Proposed Business Rates Retention Scheme

2.1. One of the ways in which Central Government propose to reduce reliance on Central Government is through the relocalisation of Business Rates. On 18 July 2011 CLG issued a formal consultation document followed by eight accompanying technical papers on this issue. A response to the consultation was required by 24 October 2011.

2.2. The proposals focus on the distribution of business rate tax revenues, rather than changes to the system of business rate taxation. Rate setting powers will remain under the control of central Government and the revaluation process will be unchanged.

2.3. Under existing arrangements, non-domestic rates (or business rates) revenue collected by local authorities is pooled centrally before being redistributed to local authorities in England. So while local authorities have a vital role to play in supporting the economy, there is limited direct financial incentive to do so.

2.4. It is the Government's intention to bring Business Rates Retention in from April 2013. The consultation paper summarises the changes for various groups these are shown below:

- **The General Public**
  Council's budget linked to business growth, with more businesses resulting in more funding for services as well as improved employment opportunities and benefits for the economy. Protection will be in place to ensure local authorities can meet local service needs.

- **Business Rate Payers**
  No change, but there will be a link between the rates paid and services in the area. Added incentives for the local authority to work with the Valuation Office Agency (VOA) to ensure properties are valued correctly.

- **Developers**
  Local authorities will have greater incentives to grant planning permission, especially for renewable energy projects. Local authorities will be able to borrow to fund infrastructure using Tax Incremental Financing (TIF) powers.

- **Billing Authorities (district councils, unitary authorities)**
  Will still bill and collect business rates but will now retain some of that income locally. The baseline will be set and billing authorities will see increases in funding if they grow and decreases in funding if they decline.

- **County Councils**
  Will receive a share of the rates collected in their districts as well as an additional top-up if required. The baseline will be set and counties will see increases in funding if they grow and decreases in funding if they decline.
  Counties may wish to consider forming a pool with their districts and/or neighbouring authorities.

- **Police and Fire & Rescue**
  Will receive the level of funding for 2013/14 and 2014/15 as set out in the 2010 Spending Review. Funding will not be affected by fluctuations in business rates in the area. A full review will take place into how these authorities are funded, in time for the

2015/16 settlement. **NOTE: Further analysis of the proposals shows that in actual fact if the Government choose to treat all fire authorities equally (i.e. Single Purpose the same as County Fire Authorities) then they will in fact be exposed to fluctuations in business rates from the outset of the scheme. For this reason Shropshire Fire & Rescue service wish to remain outside the rates retention scheme and will be responding to the consultation from this viewpoint.**

2.5. The rates retention model has been developed to meet the following aims:

- Ensure a fair starting point for all local authorities;
- Deliver a strong growth incentive where authorities can benefit from increases in their business growth and from hosting renewable energy projects;
- Include a check on disproportionate benefits;
- Ensure sufficient stability in the system; and
- Include an ability to reset in the future to ensure levels of need are met.

2.6. In general terms it is proposed that each Authority will be assessed for their National Business Rates Baseline, i.e. a total amount of NNDR funding. This is likely to be based on funding figures for 2012/13 in order to minimise funding volatility. This baseline will be frozen at the commencement of the scheme.

2.7. The baseline would then be compared to the business rate yield in the area. If there is a shortfall a 'top up' is received from Government but where there is a surplus this is paid back to government in the form of a 'tariff', balancing the system.

2.8. The top ups and tariffs will be fixed at the commencement of the scheme in 2013/14 and would not be reviewed until such time as a 'reset' of the system occurs, which could be as much as ten years afterwards and may remain at the discretion of the Government.

2.9. Once the baseline is set authorities will see increases in funding if they grow and decreases in funding if they decline. A system of levies and safety nets is proposed to protect authorities from disproportionate gains and losses.

2.10. Whilst actual figures are not yet known, Shropshire Council's business rate baseline will be higher than the total business rates collected locally. This means that Shropshire will receive a fixed 'top up' from the Government which may be subject to an increase in line with RPI in future years.

2.11. From the commencement of the scheme Shropshire will be able to benefit from any growth in its business rates yield but more

importantly and of some concern could also suffer if there is a decline. Forecasting systems will need to be developed to take into account the potentially more volatile nature of this funding.

2.12. The consultation paper highlights the following areas in which local authorities can improve the growth prospects of an area:

- Planning decisions;
- Transport infrastructure;
- Education and Training for young people;
- Advertising consent;
- Licensing powers;
- Building regulation control; and
- Food standards.

2.13. Some of the total national business rates yield will be top sliced in the form of a ‘set aside’ which will be paid back to authorities in the form of other grants. For example continued funding for the New Homes Bonus grant. Each authority would contribute an amount to the set aside that is proportionate to their baseline.

2.14. The next spending review will examine ways in which the activities and responsibilities of local government can be more closely aligned with business rates income.

2.15. The consultation also takes forward the announcement that the Government will implement Tax Increment Finance where Local Authorities would be able to choose to borrow against future growth in business rates to help fund the provision of infrastructure.

3. The Business Rates Retention Scheme and Issues for Shropshire

3.1. Shropshire will be assessed as requiring more funding than the business rates that it can raise and will therefore be a 'top up' authority. To put some numbers on this in the first year (2013/14) Shropshire is likely to raise around £66m in business rates and receive a top up in the region of £21m (this includes the first year adjustment).

3.2. This top up is fixed until such a time as government decides to 'reset' the system. We don't know how frequently this may occur but could be as much as every ten years. It is therefore important to Shropshire that the top up amount that we receive is indexed to RPI. However, linking top ups and tariffs to RPI has implications for tariff authorities who will be expected to pay an ever increasing top up.

3.3. Shropshire will not have any say in the business rate setting process so will not able to vary the income generated by say,

changing the multiplier, or changing how and when bills are raised and paid.

3.4. Early indications show that for the first two years of the scheme the funding that Shropshire will receive will be in line with current expectations however, from the outset Shropshire is exposed to the risk of a reduction in business rates or gains from any increase in business rates. It will be critical that the estimate of Shropshire's business rate baseline is realistic.

3.5. The system does provide a good incentive for authorities to boost economic growth and from an economic point of view Shropshire has as one of its five key objectives to develop Economic Growth and Prosperity and is working closely with both local businesses and neighbouring authorities. The outlook is, however, that Shropshire will need to work hard just to maintain the current number of businesses and corresponding business rate income. Shropshire's concerns are that achieving growth in this area will take a number of years and will rely on suitable major infrastructure links which Shropshire is not best located to access.

3.6. Shropshire is a sparsely populated rural county and does not feel that it will have the same potential to grow as many other urban authorities. The Shropshire economy is very dependent on both small businesses e.g. 86.9% of all businesses employ less than 10 people and the county has the second highest level of home based businesses in the UK and as a result, whilst increasing economic activity, it is far more difficult for Shropshire to increase business rates income.

3.7. Shropshire has very few companies e.g. only 52 businesses that employ more than 200 employees so again there is limited capacity to grow the business rate base. In addition, Shropshire has an environmentally precious landscape with a large AONB area and it is extremely challenging for us to bring forward new large employment sites to attract inward investment.

3.8. The current Formula Grant system is broadly based on the level of need within each local authority, e.g. as measured by population statistics and demography, combined with the level of tax resources available. In simple terms, the DCLG proposals freeze the level of need at the point defined by the current local government funding formula. Assessment of need would not change from year to year in future.

3.9. Government has said it would look to address instances of extraordinary change in need, such as a rapid and disproportionate growth in demography, between resets though it is not clear how this would happen. Over time funding will diverge from spending need.

3.10. Recent correspondence from the Association of Directors of Adult Social Services (ADASS) estimates that the increase in demand for adult social care could be as much as 4% per annum across local authorities as a whole. Over 10 years this amounts to over 42%. Some local authorities will face increases even greater than this.

3.11. For Shropshire, projections for numbers of people aged over 65 years show an increase of 18% between 2010 and 2014. We can assume that a percentage of these people will require local authority supported care and the costs of providing this care could equate to an estimated increase in costs of £12m over four years and Adult Social Care is, of course, not the only service experiencing funding pressures.

3.12. Another concern highlighted by the ADASS is the relationship between this review and the potential financial implications if the recommendations of the DiInot review are implemented. The Commission of Funding Care and Support estimates that its proposals under the review would cost the state around £1.7bn.

3.13. Shropshire's current formula grant allocation is subject to 'damping' in order to even out disproportionate movements and therefore loses out on an element of funding of £4m in 12/13. The proposed system looks to effectively freeze the current funding position going forward which means that Shropshire effectively has this damping loss locked in.

3.14. There will be a system of 'safety nets' in place to prevent authorities experiencing large reductions in funding. These safety nets will be paid for by a levy that will remove disproportionate benefits from growing authorities. Figures suggest however, that authorities may have to stand a loss in funding of up to 10% before a safety net kicks in. In broad terms if Shropshire’s business rates yield suffered a sustained reduction of just 1% per year, the equivalent of around £650k pa) Shropshire could suffer a loss totalling nearly £8m at today’s prices, over several years before a safety net kicked in. Such drops in funding may continue to be suffered until a 'reset' of the system occurs.

3.15. It may become necessary to set up specific reserves to deal with cashflow volatility. Something which Shropshire is not exposed to under the current Formula Grant system which is paid in equal instalments throughout the year.

3.16. The system has implications for planning and economic development policy as Shropshire will be reliant on raising its own funding this could create a conflict of interest around planning decisions and potential funding gains.

3.17. Government has proposed that authorities can enter into pooling arrangements with other authorities and be treated as a single body under the mechanics of the scheme. It says that no authority would be worse off than if they had not entered the pool and that in fact it may incentivise authorities to pool by providing beneficial levy arrangements. Early indications are that pooling would be beneficial in instances where some of the pooled authorities are exposed to a levy or are close to the borderline of being charged a levy on disproportionate growth.

3.18. Looking to Shropshire's LEP, both Herefordshire and Telford & Wrekin look likely to be 'top up' authorities (and unlikely to be subject to a levy on growth) and it is therefore hard to see how pooling could benefit this group, and in particular Shropshire. However, there is more work to be done to look at other pooling scenarios and under the right circumstances Shropshire might be able to benefit from increased stability in business rates and the opportunity to work on a larger scale to drive further growth.

4. Phase Two – Community Budgets

4.1. The second phase of the Local Government Resource Review is looking at how Neighbourhood and Community Budgets can be used to:

- give communities and local people more power and control over local services and budgets **;**
- develop outcomes, service solutions and a single budget, or options for pooling and aligning resources, comprising all spending on public services in an area.

4.2. The 2010 Spending Review announced the first phase of 'Community Budgets', in which 16 places were to identify the national and local funding they would need to deliver transformational solutions for families with multiple problems.

4.3. Community Budgets pool and align various national and local funding strands into a single local funding pot for tackling selected policy area issues.

4.4. Building on the success and knowledge gained from Total Place, the expectation is that this will enable places to go even further in designing service solutions that meet the key needs of their citizens.

4.5. Government has recently invited Expressions of Interest from more authorities who wish to take forward Community Budgets for Families with Multiple problems. They are also looking to extend

coverage to other policy areas. Government intends to roll out the scheme nationally by 2013-14.

4.6. Shropshire Council and partner organisations have started to explore the potential for community budgets and, as part of the Council's transformation programme will be seeking engagement with the national community budget pathfinder programme. Through this we are particularly keen to explore the potential for strong and effective democratically accountable leadership of local spend and if this can be achieved by combining the community budget approach with our work on the community leadership role of councillors.

C – Business Rates Retention Consultation – Shropshire's Response

Joel Winston
Zone 5/D1
Department for Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

Shropshire Council

Date: 11 November 2011
My ref: RM/CCJ/RB
Your ref:

Dear Mr Winston,

Re: Local Government Resource Review (Phase One)

Thank you for the opportunity to respond to the Government's consultation paper on the Local Government Resource Review (Phase One). Shropshire has considered the consultation and technical papers and a detailed response is attached.

Shropshire would like to take this opportunity to state that whilst it understands the shortcomings of the current four block methodology for resource allocation, the proposal to change the methodology to one based on rates retention raises a number of concerns for Shropshire. The following short paragraphs summarise Shropshire's main concerns and our response to individual questions about the mechanisms within the new methodology seek to represent our concerns in a fair and consistent way.

The proposal to change the way Local Government is financed, whilst offering some opportunities for authorities in economic vibrant areas, presents Shropshire with some initial concerns about the future protection of essential services.

Shropshire Council recognises that the existing four block methodology for determining grant allocations for Local Authorities is very complex and falls short of achieving the objective of allocating resources where needs lie due in part to Ministerial judgments. The existing model does, however, attempt to recognise differing demographic and service needs.

As the DCLG admit, there is no correlation between business growth and service need. The Business Rates Retention model raises concerns for Shropshire in particular due to its demographic and economic position. In particular, 22% of Shropshire's population is over 65 compared to a national average of 16%. The rate of increase in the number of people in this age

range is increasing more in Shropshire than the national average. The additional costs for services for elderly people in Shropshire associated with this increase have been estimated to reach £12.5m by 2015. The only mechanism proposed within the consultation for recognising changes in service needs is a “reset” which may only occur every 10 years. Shropshire would like to stress that changing needs must be taken into account in a timely manner to maintain essential services and would recommend the appointment of an independent body to monitor changing needs and manage the reset process.

From an economic point of view Shropshire has as one of its five key objectives to develop Economic Growth and Prosperity and is working closely with both local businesses and its neighbouring authorities. The outlook is, however, that Shropshire will need to work hard just to maintain the current number of businesses and corresponding business rate income. Shropshire’s concerns are that achieving growth in this area will take a number of years and will rely on suitable major infrastructure links which Shropshire is not best located to access.

Shropshire is a sparsely populated rural county and it does not feel that it will have the same potential to grow as many other urban authorities. The Shropshire economy is very dependent on both small businesses e.g. 86.9% of all businesses employ less than 10 people and the county has the second highest level of home based businesses in the UK and as a result, whilst increasing economic activity, it is far more difficult for Shropshire to increase business rates income. Shropshire has very few companies e.g. only 52 businesses that employ more than 200 employees so again there is limited capacity to grow the business rate base. In addition, Shropshire has an environmentally precious landscape with a large AONB area and it is extremely challenging for us to bring forward new large employment sites to attract inward investment.

It can be seen that the proposed system has the possibility of providing a “double” disbenefit for Shropshire in that additional needs are not recognised and the restricted ability to grow the businesses.

Shropshire would also like to highlight the following issues arising from the detail in the consultation:

1. The use of 12/13 damped formula grant allocations as the baseline for future allocations means that for Shropshire damping of £4m is effectively locked in to future funding.
2. The current formula grant model does not adequately address the increased costs associated with rural sparsity, another factor that will be locked in to future funding under the new scheme.
3. The need to increase the top ups and baseline funding by RPI to prevent real terms decline in funding for top up authorities.
4. The need for safety nets to be fully funded and applied in a timely manner to provide assurance to local authorities and reduce the need to put aside large amounts of Business Rates income to offset “risk”

5. The need for the government to work with local authorities to improve intelligence around business growth and development providing additional funding for projects in this area.

Shropshire's responses to the consultation questions are attached:

Yours sincerely

Rachel Musson
Corporate Head of Finance and Commerce

Local Government Resource Review: Proposals for Business Rates Retention

Consultation Response – Shropshire Council, 24 October 2011

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Chapter 3: A scheme for rate retention

Component 1: Setting the baseline

Q1: What do you think that the Government should consider in setting the baseline?

SC: We think that it is important to maintain stability when setting the baseline at the outset of the scheme and to use realistic forecasts.

Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?

SC: We strongly feel that the 12/13 formula grant allocation does not accurately reflect Shropshire's need to spend.

For example the four block model does not adequately incorporate factors such as rural sparsity. There is currently a funding gap of (of 50%) between grant per head for urban residents compared to rural residents this could be addressed by:

- Increasing the ECPS district sparsity indicator by 50% and reducing the density indicator to offset the extra RNF. Density would still be about four times larger than sparsity in the formula.
- Reinstating the EPCS county sparsity indicator removed in 2003-04, offset by reducing the density indicator by about one quarter and,
- Double the existing discretionary Older Peoples PSS sparsity adjustment from 1% of total funding to reflect the very real costs of delivering domiciliary services in remote communities.

Given the relatively small size of rural authorities compared to urban ones, the effect of this on other authorities would be small.

Shropshire's allocation is also subject to damping and in 12/13 loses out on an element of funding (£4million in 12/13) which is the equivalent of a 3% rise in Council Tax locally. By using the 12/13 grant as the basis for constructing the baseline these inherent problems are effectively locked in to future funding. We recognise the instability it would cause to remove damping however, we would welcome the gradual unwinding of damping over time.

In terms of which option to use. Option one, adjusting allocations according to new control totals, offers a degree of certainty over the allocations, and such certainty is a good thing. With option two, reapplying the formula and making technical updates, whilst it would seem sensible there is no way any individual authority could assess the actual impact of rerunning the model on final allocations. It is for this reason that Shropshire chooses option one.

Component 2: Setting the tariffs and top ups

Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?

SC: Shropshire agrees with the principle of tariffs and top ups to ensure that low business rate yield authorities do not experience funding issues.

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?

SC: Being a predominantly rural authority Shropshire does not have enormous potential for business rate growth and in fact, in the present climate, is likely to experience a fairly static business rates yield. It will therefore be important for Shropshire, to prevent real terms decline in funding, to ensure that the top up it receives increases by RPI.

Component 3: The incentive effect

Q5: Do you agree that the incentive effect would work as described?

SC: We believe that the ability to keep growth (to an extent) would provide, in principle, an incentive to stimulate growth. However, the ability to stimulate business rates growth in Shropshire is limited. Also, since Local Authorities have no control over the business rates setting process the ways in which the local business economy can be influenced are reduced.

Also, from the commencement of the scheme some of the forecast growth in business rates will already have been removed in the form of the set aside so not all growth is actually being retained in the way that the scheme implies.

Component 4: A levy recouping a share of disproportionate benefit

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?

SC: It will be important to have a system of levies in order to fund a system of safety nets.

Q7: Which option for calculating the levy do you prefer and why?

SC: Shropshire prefers option three (retention of growth in proportion to baseline revenue) as this takes into account the gearing effect. We feel also that the proportions set should not penalise authorities experiencing relatively normal growth rates (1% to 2%) so should not be set below say, 1:1 (i.e. a levy kicks in when 1% growth in business rates equals more than a 1% growth in retained funding). The system of proportional levies could be improved by introducing a sliding scale of proportional levies. The Society of County Treasurers has outlined how such a sliding scale might work.

Q8: What preference do you have for the size of the levy?

SC: The levy should be sufficient to fund the safety nets.

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?

SC: In order to incentivise renewable energy projects Shropshire agrees with the approach that

authorities should retain all business rate proceeds from such projects and that these revenues should be discounted in levy calculations.

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:

- **i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or**
- **ii) ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?**

SC: Shropshire believes that it is important that the levy pot should provide protection to authorities in **both** circumstances. As stated in the consultation document this level of assurance would ensure that more money can be spent on providing services rather than offsetting risk.

Q11: What should be the balance between offering strong protections and strongly incentivising growth?

SC: The system should be balanced but protection from large scale drops in income should be a priority.

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?

SC: Shropshire would support using levy proceeds to provide ongoing support in areas suffering significant losses, targeting expenditure on projects to unlock growth and prosperity and creating a reserve for future years' safety nets.

Q13: Are there any other ways you think we should consider using the levy proceeds?

SC: Similar to the proposal suggested in the consultation Shropshire would support targeted grants to enable authorities to invest in business rate intelligence systems or work to promote business rate growth in poor growth areas. The mechanics of the current system of central pooling mean that authorities have never had to forecast local economy data to the same extent that they do for say, Council Tax. Some authorities will have much work to do to develop local economy intelligence to enable targeted policies that will make a difference to business on the ground and investment in this area would be welcomed.

Component 5: Adjusting for revaluation

Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?

SC: We agree that tariffs and top ups should be adjusted to remove the effects of revaluation on individual authorities but should not be adjusted to the extent that it removes physical growth. To do so would adversely impact on the incentive to achieve physical growth.

Q15: Do you agree with this overall approach to managing transitional relief?

SC: We agree that the impact of transitional relief should be removed from local authority finances so that we are not exposed to costs or surpluses arising over which we have no

control.

Component 6: Resetting the system

Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?

SC: We have deep concerns that the proposed system will not take into account need to spend until a reset takes place and moreover that such a reset might only occur at ten year intervals. Shropshire has an ageing population which is increasing at a faster rate than the national average. The demands on service that this will bring may not be addressed in terms of funding for some time if resets do not occur for ten years or so. Shropshire is a rural County with limited capacity to achieve the level of growth necessary to meet increasing needs. Council tax payers may end up faced with increased bills or further reduced services in order to meet these pressures. Changing needs must, therefore, be taken into account in a timely manner.

We would therefore support a fixed full reset at 5 to 10 year intervals (assuming that the sparsity factors and damping issues outlined in Q2 are addressed when setting the baseline) but with the option of partial resets if it proved necessary to realign resources between full resets to ensure Councils remain able to meet local needs.

Q17: Should the timings of reset be fixed or subject to government decision?

SC: We agree that the timing of resets should not necessarily be fixed in order to avoid the temptation to plan investment around resets. However, leaving it purely as a government decision could leave authorities exposed to increasing spend pressures for long periods. As suggested by the Society of County Treasurers Shropshire would support the introduction of an independent body to determine when needs and resources have diverged past a pre-determined trigger and call a reset.

Q18: If fixed, what timescale do you think is appropriate?

SC: See Q17. We would prefer the occurrence of resets to be determined by an objective body.

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?

SC: A partial reset may not go sufficiently far enough in addressing instances where authorities are experiencing high spending pressures and slow or negative growth however, full resets serve to eliminate the benefits of having achieved growth which would be a disincentive. Shropshire believes that fully meeting the need to spend should be a priority which would require a full system reset.

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?

SC: Shropshire would like to see an improvement on the current model in terms of needs assessment. A more accurate and objective system overseen by an independent body would be welcomed. Such new models should look to incorporate important factors such as rural sparsity to a greater degree.

Component 7: Pooling

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?

SC: Yes, Shropshire supports the criteria which says that pools should be voluntary, subject to assurances around governance and their workability and if dissolved that members would return to their individual tariff, top up and levy amounts.

Q22: What assurances on workability and governance should be required?

SC: As a minimum pools should provide detailed information as to the sharing arrangements in terms of funds and deficits.

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?

SC: Districts should be permitted to form pools outside their county area subject to the consent of the county.

Q24: Should there be further incentives for groups of authorities forming pools and if so, what would form the most effective incentive?

SC: No, the incentive of greater stability and protection from individual rate fluctuations as well as the opportunity to work on a larger scale to drive further growth are sufficient.

Impact on non-billing authorities

Q25: Do you agree with these approaches to non-billing authorities?

SC: Shropshire agrees that Police and Fire authorities should be removed from the rates retention model. They are not in a strong position to drive business growth so exposing them to the risks of decline is not appropriate. There is also little, if no, correlation between needs and business growth in terms of Fire and Police. This said we understand that County Fire Authorities will fall within the system and it would not be fair to treat them differently to single purpose fire authorities.

In terms of districts and counties it would be important for counties to share in business growth and Shropshire agrees with the Society of County Treasurer's proposal to share growth in direct proportion to formula grant in the baseline, giving each authority an identical incentive for growth.

Shropshire is concerned that funding Police and potentially Fire services in proportionate shares will mean that some authorities will end up funding the services of other areas and removes the incentive to work together. A more tailored approach to funding these services in an authority's relative area would be more appropriate.

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

Q26: Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?

SC: Shropshire would prefer it if future New Homes Bonus could be funded from the set aside. That said if it is to be funded from within the overall expenditure total it would seem reasonable as long as the returned surplus funding came back clearly identified and un-ringfenced. In order to inform financial planning Shropshire would appreciate early notification as to the level of funding that might be top sliced and subsequently returned.

Q27. What do you think the mechanism for refunding surplus funding to local government should be?

SC: Funding should be returned in proportion to authority baseline and un-ringfenced.

Business rates relief

Q28: Do you agree that the current system of business rates reliefs should be maintained?

SC: It will be important for businesses to have assurances that business rates reliefs will be maintained. New statutory reliefs should be fully funded and discretionary reliefs should continue to be part-funded as at present.

Chapter 5: Supporting local economic growth through new instruments

Q29: Which approach to Tax Increment Financing do you prefer and why?

SC: Option 1 means that authorities have full control over their decision to access TIF however, there is a risk that a reset would remove the growth achieved. This may make it more difficult to secure finance in the first place. Authorities would be limited to working within the boundaries of this risk but at least would retain full control over the financing decision.

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

SC: TIF investors would prefer to work within Option 2 where revenue streams come with greater guarantee however this Option means that other authorities would lose out when it comes to the redistribution of resources.

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?

SC: Yes.

Q32: Do you agree that pooling could mitigate this risk?

SC: We think that, as well as levies, it is the threat of a reset which presents the greatest risk to securitising revenues and a pooling arrangement would not necessarily fully mitigate this

particular risk.

Q33: Do you agree that central government would need to limit the numbers of projects in option 2? How best might this work in practice?

SC: Yes, in order to ensure sufficient funding remains to fund the call on the safety net. By limiting numbers of projects Government is introducing a level of control. This seems to be in conflict to the underlying intention of the system to allow greater freedoms.

Consultation Ends – Responses to Technical Paper Questions now follow.

Technical Paper Questions

TP1 Establishing the Baseline

TP1 Q1: Do you agree with the proposed approach to calculating the amount to be set aside to fund other grants to local government? If not, what alternative do you suggest and why?

SC: Shropshire is concerned that forecast 2014/15 information will be used to determine the value of the set aside from the outset of the scheme. If the forecasts are not accurate this could mean that the true reward for achieving real growth is reduced. We would suggest using known information and then adjusting going forward.

TP1 Q2: Do you agree with the proposed approach for making an adjustment to fund New Homes Bonus payments, and for returning any surplus to local authorities in proportion to their *baseline funding* levels?

SC: Shropshire agrees with the approach for making an adjustment to fund New Homes Bonus payments as long as the surplus funds are returned clearly identified and un-ringfenced.

TP1 Q3: Do you agree with the proposed approach for making an adjustment in the event of any functions being transferred to or from local authorities?

SC: Shropshire agrees with the approach as long as New Burdens are fully costed and the amounts transferred are realistic. This would mean taking into account the cost of delivering such services at a local level which can differ from area to area. For example in Shropshire the cost of providing some services attracts a rural premium.

TP1 Q4: Do you agree with the proposed approach for making an adjustment to fund police authorities, and potentially also single purpose fire and rescue authorities?

SC: Shropshire feels that there is little correlation between business growth and the demand for police and fire services and for this reason feels that police and fire should be removed from the rates retention scheme and not exposed to fluctuations in business growth.

Shropshire is also concerned that funding services in proportionate shares will mean that some authorities will end up funding the services of other areas and removes the incentive to work together. A more tailored approach to funding these services in an authority's relative area would be more appropriate.

TP1 Q5: Do you agree with the proposed approach for ensuring that no authority loses out in 2013-14 as a result of managing the business rates retention system within the 2014-15 expenditure control total?

SC: In principal it would seem fair to redistribute, as an adjustment, surplus amounts in 2013/14 however, it is not clear how the distribution would be carried out at individual authority level so it is hard to comment on individual circumstances.

TP1 Q6: Do you agree that we should use 2012-13 formula grant after floor damping as the basis for establishing authorities' baseline funding levels? If not, why?

SC: Damped authorities do not receive the funding that they are deemed to need. Shropshire will lose £4m in 2012/13 due to damping. This is the equivalent of putting over 3% on Council Tax locally, so is a significant amount. By using damped amounts Shropshire effectively has this 'loss' frozen into the system for the foreseeable future. Shropshire accepts that it would create too much instability in the system to remove floor damping immediately but would welcome the unwinding of damping over time.

TP1 Q7: Do you agree that we should use 2012-13 allocations as the base position for floor damping in calculating the 2013-14 formula grant equivalent; and use the 2013-14 formula grant equivalent as the base position for floor damping in calculating individual authority's baseline funding levels?

SC: This would seem reasonable and is in line with previous treatment of damping calculations.

TP1 Q8: If not, which years should be used as the base position for floor damping in each of these calculations, and why?

SC: See Q6 and Q7.

TP1 Q9: If option one is implemented, do you agree that we should reduce the formula grant for each tier of services according to its Spending Review profile?

SC: This would seem fair and to a certain degree anticipated.

TP1 Q10: If so, do you agree with the proposed methodology for splitting formula grant between the service tiers for those authorities that have responsibility for more than one tier of service, as described in annex B?

SC: This would seem fair.

TP1 Q11: If option two is implemented, do you think we should update none, some or all of the data sets used in the formula grant calculations? If you think some should be updated, which ones, and why?

SC: Whilst it would seem sensible there is no way any individual authority could assess the actual impact of rerunning the model on final allocations. It would be possible to require more resources across all updated factors yet still lose out overall. It is for this reason that Shropshire chooses option one.

TP1 Q12: If option two is implemented, do you think we should review the formulae for none, some or all of the grants rolled in using tailored distributions? If you think the formulae should be reviewed for some of these grants, which ones, and why?

SC: See TP1 Q11.

TP1 Q13: If option two is implemented, do you think we should review the relative needs formula for concessionary travel?

SC: See TP1 Q11.

TP1 Q14: Do you think we should review any of the other relative needs formulae? If so, which ones and why?

SC: See TP1 Q11.

TP1 Q15: If option two is implemented, do you think we should alter the balance between service demands and resources; and if so, how?

SC: See TP1 Q11.

TP1 Q16: Do you agree with the proposed approach for establishing guaranteed levels of funding for police authorities, and potentially also single purpose fire and rescue authorities, in 2013-14 and 2014-15?

SC: Shropshire believes that police and fire authorities should have guaranteed levels of funding for the firs two years of the scheme and beyond.

TP1 Q17: Do you agree with the proposed approach for funding new burdens within the business rates retention scheme? If not, why?

SC: Shropshire agrees with the approach as long as New Burdens are fully costed and the amounts transferred are realistic. This would mean taking into account the cost of delivering such services at a local level which can differ from area to area. For example in Shropshire the cost of providing some services attracts a rural premium.

TP1 Q18: Do you agree with the proposed approach for dealing with boundary changes and mergers? If not, what alternative would you propose, and why?

SC: Shropshire agrees that boundary changes and mergers should leave authorities unaffected in funding terms.

TP1 Q19: Do you agree with the proposals on the future of Revenue Support Grant?

SC: Shropshire agrees with the proposals.

TP2 Measuring Business Rates

TP2 Q1: In the absence of billing authority estimates for 2013-14 and 2014-15, do you agree with the Government's proposals for setting the forecast national business rates?

SC: In Shropshire's experience predicting forecast business rates is notoriously hard and is only more so in times of economic hardship. Shropshire would like to have input into the national forecasts.

TP2 Q2: Do you agree with the proposed basis on which proportionate shares would be calculated?

SC: It would seem fair that those with the greatest amount of income contribute the greatest proportionate shares. Proportionately funding services like the police authority however, may mean that some areas with less costly police authorities end up funding other police authority areas which does not seem equitable and does not create the incentive for local authorities to work with police authorities to reduce crime.

TP2 Q3: Which of the options – "spot", or "average" – do you believe would be the fairest means of determining each billing authority's business rate yield, upon which proportionate shares would be based?

SC: As business rates yield can be particularly volatile Shropshire supports taking an average as the fairest means of determining each billing authority's business rate yield. Ideally the average would be taken over four to five years however, this may not be possible due to the impacts of revaluation.

TP2 Q4: Do you agree with the allowable deductions the Government proposes to make to each billing authority's business rates yield, to reflect differences in the local costs of items such as reliefs, in establishing proportionate shares?

SC: Shropshire agrees with the proposals.

TP3 Non-billing Authorities

TP3 Q1: Of the two options outlined for determining a county council's share of a billing authority business rates baseline (pre-tier split), which do you prefer?

SC: As a unitary authority this does not have a direct impact on Shropshire however, Shropshire supports a situation where all authorities are subject to the same risk and reward. The Society of County Treasurers has developed a third option which looks to allocate business rates in a county area along the same lines as the distribution of formula grant between the same authorities. Shropshire would support this approach.

TP3 Q2: Do you agree that police authorities should receive fixed funding allocations in 2013-14 and 2014-15 through an adjustment to the forecast national business rates?

SC: Shropshire believes that police authorities should receive fixed allocations in 2013/4 and 2014/15 however, as previously mentioned Shropshire is concerned that funding services in proportionate shares will mean that some authorities will end up funding the services of other areas and removes the incentive to work together. A more tailored approach to funding these services in an authorities relative area would be more appropriate.

TP3 Q3: Do you agree that the services provided by county fire and rescue authorities should be funded through a percentage share of each district council's billing authority business rates baselines (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level?

SC: Shropshire supports the principle of funding each county fire authority through a percentage share of their relevant councils' business rates baseline. There is some concern however, that to do this will expose county fire authorities to fluctuations in business rates whilst single purpose fire authorities potentially remain outside of the rates retention scheme. Shropshire believes it would be preferable for all fire authorities to be treated the same and for them to remain outside the scheme.

TP3 Q4: Do you think that single purpose fire and rescue authorities should be funded:

a. **through a percentage share of each district council's billing authority business rates baselines (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level; or**

b. **through fixed funding allocations for 2013-14 and 2014-15, through an adjustment to the forecast national business rates?**

SC: Shropshire believes that each fire authority should be funded by the collection authorities that they cover and that all fire authorities should be treated the same.

TP4 Business Rates Administration

TP4 Q1: Do you agree with the proposed approach for administering billing authorities' payments to central government?

SC: Shropshire agrees with the proposals and would request that allocations be published as early as possible so that budgeting and Council tax can be finalised.

TP4 Q2: Do you agree with the proposed approach for administering billing authorities' payments to non-billing authorities?

SC: Shropshire agrees with the proposed approach.

TP4 Q3: Do you agree with the proposals for year end reconciliation?

SC: Shropshire agrees with the principle of year end reconciliation. However it will be important for billing authorities to be as accurate as possible in forecasting their collection to protect non billing authorities from the risk of large year end adjustments.

TP4 Q4: Do you agree with there should be a process for amending payments to non-billing authorities to reflect in-year changes, similar to the current NNDR2 returns?

SC: Shropshire supports the ability to amend payments within year.

TP4 Q5: If there is a process for amending payment schedules, do you think changes should be possible at fixed points throughout the year? How frequently should changes be possible?

SC: It would seem sensible to amend payment schedules on a quarterly basis.

TP4 Q6: Alternatively, do you think changes should only be possible if triggered by significant changes in business rates forecasts? What do you think should constitute a significant change?

SC: No, Shropshire would support regular payment schedule reviews based on updated forecast business rates.

TP4 Q7: Do you agree with the proposed approach for administering payments to and from non-billing authorities?

SC: Shropshire agrees with this approach.

TP4 Q8: Do you agree with the proposed approach for establishing liability for the levy and eligibility for support from the safety net on the basis of an authority's pre-levy business rates income?

SC: The government should not wait until the year end (i.e. when pre-levy business rates income is known) to make the assessment for levy and safety net payments. Instead, in year assessments should be made on actual and forecast information and adjustments made at year end. This would ensure that those requiring the assistance of a safety net will receive that help sooner rather than later.

TP5 Tariff, Top Up and Levy Options

TP5 Q1: Should tariffs and top ups be index-linked, or should they be fixed in cash terms?

SC: Shropshire believes that tariffs and top ups should be index linked in order to protect tariff authorities from the additional risk of decline and still giving top up authorities incentives to grow.

TP5 Q2: Do you agree that a pool's tariff, or top up, should be the aggregate of the tariffs and top ups of its members?

SC: Shropshire supports this proposal.

TP5 Q3: Do you agree that the levy should apply to change in pre-levy income measured against the authority's baseline funding level?

SC: Yes, if safety nets are also applied in the same way.

TP5 Q4: The main consultation document seeks views on which option for calculating the levy you prefer (flat rate, banded or proportional) and why. What are your views about the levy rate that should be applied if a flat rate levy is adopted?

SC: Shropshire will be a top up authority and not likely to be subject to levy unless the bar is set very

low. Of the three options the proportional levy would seem the most fair as it will address gearing issues however, it could be improved by introducing a sliding scale of proportional levies. The Society of County Treasurers has outlined how such a sliding scale might work.

TP5 Q5: If a banded levy is adopted, should the bands be set on the basis of an authority's gearing, or on some other basis; how many bands should there be and what levy rates should be applied to each band?

SC: The banded approach will create cliff edges which will be benefit some authorities and disadvantage others. Excessive growth in some areas may also not be properly addressed.

TP5 Q6: Under a proportional scheme, what is your view of the levy ratio that should be applied?

SC: A proportional levy which is constructed according to a continuous sliding scale would ensure that greater proportions of normal growth are retained and excessive growth is scaled back.

TP5 Q7: Do you agree that pools of authorities should be set a lower levy rate, or more favourable levy ratio than would have been the case if worked out on the aggregate of the pool members levy?

SC: No, this would be at the expense of other authorities. Authorities in pools should be no worse off than if they remained outside a pool.

TP5 Q8: Do you agree that safety net payments should be triggered by changes in an authority's retained income?

SC: More low geared authorities such as Shropshire will take longer to trigger the safety net as the measure will be based on the decline in retained income and not on the decline in business rates income. In year decline in business rates income would have to be significant to impact on decline in retained income. For these types of authorities it would be more helpful to assess decline by the drop in business rates yield.

TP5 Q9: The main consultation document seeks views on whether there should be a safety net for annual changes in pre-levy income. If so, what percentage change in annual income do you think that authorities could reasonably be expected to manage before the safety net kicked-in?

SC: Shropshire supports the use of a safety net to protect against significant falls in income annually and when compared with an index-linked baseline. Not accounting for the effects of inflation around a 2% drop in business rates income creates a 1.6% drop in retained income which would mean a 1% increase in Council Tax to maintain spending levels. This would be significant for Shropshire.

TP5 Q10: The main consultation document also seeks views on whether there should be a safety net against absolute falls in income below an authority's baseline funding levels. If so, at what percentage below baseline should the safety net kick in?

SC: Shropshire supports the use of a safety net to protect against significant falls in income annually and when compared with an index-linked baseline.

TP5 Q11: Do you think that for the purposes of the baseline safety net, the baseline should be annually uprated by RPI, or not?

SC: Yes, the baseline should be index linked.

TP5 Q12: Do you think that the safety nets should provide an absolute guarantee of support, or should financial assistance be scaled back if there is insufficient funding in the levy pot?

SC: The safety net should not be scaled back and levies should be administered to ensure there are sufficient funds.

TP5 Q13: Should safety net support be paid in year, or after a year-end?

SC: Safety net payments should be made within year.

TP5 Q14: Do you agree that pools should be treated as single bodies?

SC: Yes, Shropshire agrees with the proposal that authorities should be no worse off than if they had remained outside of a pool.

TP6 Volatility

TP6 Q1: Do you agree that some financial assistance should be provided to authorities for the effects of volatility?

SC: Yes, significant negative volatility should be compensated for by the safety net in the same way that positive volatility should be subject to the levy.

TP6 Q2: Of the options set out in the paper, which would you prefer? Do you agree with the Government's analysis that a safety net, instead of an events-based, or application-based approach offers the best way of managing volatility?

SC: Shropshire supports the final option of providing financial support when retained income falls

below a predetermined level. This would seem the most straightforward to administer and would provide certainty over the support available.

TP7 Revaluation and Transition

TP7 Q1: Do you agree that tariffs and top ups should be adjusted at a Revaluation to ensure that authorities' retained income is, so far as possible, unaffected by the impact of the revaluation?

SC: Shropshire agrees that authorities should be protected from the impact of revaluation by adjusting tariffs and top ups if it is simply the impact of revaluation that is adjusted for and that any such adjustments don't impact on growth or the incentive to grow. Taxbase growth should not be eradicated or redistributed as a result of revaluation adjustments. It may not be possible to preserve the level of incentive through such adjustments, for example revaluation may put an authority closer to a levy or a higher levy charge and this may change subsequent investment decisions.

TP7 Q2: Do you agree that, having made an adjustment to tariffs and top ups, there should be no further adjustments to reflect subsequent appeals against the rating list?

SC: Any extreme effects as a result of appeals could be addressed by the safety net.

TP7 Q3: Do you agree that transitional relief should be taken outside the main business rates retention scheme?

SC: Yes

TP7 Q4: Do you agree with the Government's proposal for a system of transitional adjustments?

SC: Yes Shropshire agrees with the proposal to estimate the affect of transitional reliefs and make charges or payments based on these estimates and reconciling at year end.

TP7 Q5: Do you agree that any deficit on transitional adjustments should be charged to the levy pot?

SC: So as not to place greater demand on the levy pot Shropshire would support funding the deficit on transitional adjustments from the set aside.

TP8 Renewable Energy

TP8 Q1: Do you agree that the generation of power from the renewable energy technologies listed should qualify as renewable energy projects for the purposes of the business rates retention scheme?

SC: Yes, Shropshire agrees with this proposal.

TP8 Q2: Do you agree that establishing a baseline of business rate income from existing renewable energy projects against which growth can be measured is the most effective mechanism for capturing growth. If not, what alternative approach would you recommend and why?

SC: Shropshire agrees with this proposal.

TP8 Q3: Do you agree with the proposal to define "renewable energy projects" using, as a basis, the definition in previous business rates statutory instruments?

SC: Shropshire agrees with this proposal.

TP8 Q4: Do you agree with the proposal for identifying qualifying business rates income from new renewable energy technologies installed on existing properties?

SC: Shropshire agrees that the Valuation Office Agency should carry out this evaluation.

TP8 Q5: Do you agree with the proposal that the business rates income from Energy from Waste plants that qualify as being from a renewable energy project should be determined by the Valuation Office Agency apportioning the rateable value attributable to renewable energy generation? If not, what alternative would you propose, and why?

SC: Shropshire agrees that the Valuation Office Agency should carry out this evaluation.

TP8 Q6: Do you agree with the proposal that the billing authority should be responsible for determining which properties qualify as a renewable energy project?

SC: Yes, Shropshire agrees with this proposal.

TP8 Q7: Do you agree that the revenues from renewable energy projects should be retained, in two tier areas, by the local planning authority, or do you consider that the lower tier authority should receive 80 per cent of the business rates revenue and the upper tier authority 20 per cent?

SC: Income should be split equally.