



<u>Committee and Date</u>	<u>Item</u>
Cabinet	
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## **BUSINESS PLAN AND FINANCIAL STRATEGY – 2014/15 TO 2016/17**

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### **1 Summary**

The Draft Council Business Plan and Financial Strategy considered by Cabinet on 13 November 2013 provided details of the council's financial projections for resources and expenditure over the 3 year period 2014-17. In January, Cabinet received an update to the Business Plan and Financial Strategy which included the latest resource and expenditure projections following the draft Local Government Finance Settlement for 2014 to 2015 and further information on the proposals to meet the funding gap identified of £80m over the period 2014-2017.

The Final Council Business Plan and Financial Strategy includes the latest financial position for 2014/15 following the Final Local Government Finance Settlement announced on 5 February 2014. The resource and expenditure projections have also been updated for the latest estimate of the Council's share of Business Rates, the collection funds for council tax and business rates and further information received on specific grants for 2014/15.

The report also includes an update of the capital programme for 2014-17 based on current confirmed funding and delivery schedule for schemes.

### **Recommendations**

It is recommended that members:

- A. Agree and recommend to Council the Final Business Plan and Financial Strategy attached at Appendix 1 and agree the proposals for setting the Council's budget for the three years 2014/15 to 2016/17
- B. Recognise the projected funding gap over the period 2014/15 to 2016/17 of £80m; £41.531m falling in 2014/15
- C. Approve the savings identified in 2014/15 of £39.892m and rephasing of growth proposals of £1.639m to meet the funding gap.
- D. Agree the adjustments to the budget for the internal market to ensure that the costs of these services and the recharge cost and income for these services are no longer both reflected in the gross budget.
- E. Approve the budget for 2014/15 of £573.139m, after savings and internal market costs adjustments.

- F. Agree to accept Council Tax Freeze Grant for 2014/15 of £1.307m on the basis that Council Tax will be frozen for 2014/15.
- G. Note the financial implications of the transfer of the Programme Management Office and Business Design Team to ip&e.
- H. Agree the revised Capital Programme for 2014/15 to 2016/17 as set out within the report and recommend this to Council for approval.
- I. In accordance with the regulations, approve a Capital Allowance of £1million for 2014/15 to enable the Council to retain in full, capital receipts received from the disposal of Housing Revenue Account (HRA) assets (excluding Right to Buy sales). Furthermore, that the capital receipts from such sales are reserved for expenditure on the Council's housing stock.

## **REPORT**

### **2 Risk Assessment and Opportunities Appraisal**

- 2.1 The development and delivery of the Council's Business Plan and Financial Strategy for the next three years is the key process in managing many of the Council's strategic risks. The opportunities and risks arising are assessed each time the document is refreshed for Cabinet consideration. The Council's Strategic Risks are reported separately, but the Business Plan and Financial Strategy makes specific reference to the significant financial uncertainty across Local Government in the Medium Term.

#### **Financial Uncertainty**

- 2.2 From 2013/14 a new funding mechanism for Local Government was introduced which is based on the retention of 50% of locally raised Business Rates. The remaining funding received by the Council, Revenue Support Grant and Top up is based on the Council receiving a total amount comparable to the amount that would have been received under the four block funding methodology. There is a risk that the government's estimate of Shropshire's Business Rates is too high so that the remaining RSG and Top up are insufficient to make up the total amount required. Alternatively, if the government has estimated Shropshire's share of Business Rates, the baseline, conservatively it will mean that the Council's actual Business Rates have to fall firstly down to the baseline figure then 7.5% below that figure before the safety net arrangements apply. Shropshire's current projections show projected Business Rates above the baseline assumptions.
- 2.3 From 2013/14 the funding mechanism is fixed. Variation in the Council's Business Rates will result directly in more or less funding for the Council. The safety net mechanism is only invoked when the Council's total net income is reduced by 7.5% or more. For Shropshire this is a drop of £3.5m below the baseline, however, our current projections show we would be operating above this level, therefore would need to suffer a greater drop of almost £4.5m before the Safety Net would be invoked.
- 2.4 Locally retained business rates introduce uncertainty to the Council's in year available resources; previously the Council was informed of the amount of redistributed business rates it would receive before the start of the financial year, under the new system the resources the Council actually receives will only be

estimated in advance and could vary significantly. To mitigate the risk of large variations in estimated Business Rates, monitoring of Business Rates income will be further developed and reported regularly, reducing risk as the level and quality of data is increased.

- 2.5 The government has retained 50% of Business Rates and distributes this back to local authorities after any adjustments as Revenue Support Grant and a Top Up payment. Central Government can continue to adjust local government finance settlements by adjusting the control totals and distributing any surplus Business Rates as new responsibilities.
- 2.6 In addition, as service needs change the funding mechanism will not reflect these changes. It is proposed that the system will not be reset for 7 years i.e. until 2020/21.
- 2.7 By creating a Financial Strategy that continues to look beyond the next three years at the longer-term and is regularly updated to reflect new information, the Council is in a stronger position to approach future challenges proactively, rather than reactively.
- 2.8 While the Financial Strategy represents our approach to the mitigation of the financial uncertainty we are faced with, the tight and uncertain 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. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. As the new Business Rates Retention system becomes embedded this will mean the revision of newly introduced provisions for rating appeals and other fluctuations.
- 2.9 For the Financial Year 2014/15 the total value of all proposals (including rephasing of growth) exceed the funding gap identified. However, the timing of delivery and the scale of proposals to be implemented in a short time period still represent a significant risk to the authority. For this reason it is essential that the Council has a reasonable level of reserves in place to help mitigate against this risk and this is set out within the Business Plan and Financial Strategy.
- 2.10 The report to Cabinet on the Robustness of Estimates and Adequacy of Reserves should be considered alongside this report.

### **Other Risks and Opportunities**

- 2.11 The Business Plan and Financial Strategy sets the resource parameters within which the Council can commission services to meet its priority outcomes. All risks and opportunities which have a material monetary value are considered within the strategy.
- 2.12 The Council's Business Plan and Financial Strategy recognises that there are risks and opportunities associated with ip&e as it a wholly owned company of the Council. The development of the Council's future financial strategy will be clear about the financial expectations of ip&e and how this will impact on the Council's budget.
- 2.13 Setting the Financial Strategy and agreeing the detailed changes necessary to deliver the agreed budget for the next financial year, will take into account the

requirements of the Human Rights Act, any necessary environmental appraisals and the need for Equalities Impact Needs Assessments and any necessary service user consultation.

### **3 Financial Implications**

- 3.1 The Council's Business Plan and Financial Strategy identifies the financial implications of the overall strategic direction of the authority.
- 3.2 The resource projections are based on the 2014/15 Final Local Government Finance Settlement. The Council's own estimate of locally retained Business Rates as detailed in the National Non Domestic Rates return to Government dated 31 January 2014 is used.
- 3.3 The expenditure projections take account of known services changes and pressures including legislative changes.
- 3.4 All projections in future years will be continually reassessed as information becomes available and national and local circumstances change from those modelled within the Strategy.
- 3.5 The current predictions on the level of general reserves are based upon the latest projections for 2013/14 spending as at Period 9 monitoring.
- 3.6 The financial impact of any known transfer of services, for example to ip&e, has been estimated and identified in the report. The impact of any further transfers will be included in future strategies once they have been approved.

### **4 Business Plan and Financial Strategy 2014-2017**

- 4.1 In November 2013, Cabinet received the first draft of the Council's Business Plan and Financial Strategy. Since that date significant work has been undertaken to improve the document, to provide more details of our plans, to reflect the latest financial position and to refine the Council's vision for the future.
- 4.2 In January, Cabinet received a number of updated sections and additions to the Business Plan and Financial Strategy incorporating further details on savings proposals and updating of the current capital programme, and these have now been incorporated into a final single document.
- 4.3 The finalised Business Plan and Financial Strategy is attached at Appendix 1 to this report and will be presented to Council on 27 February for formal adoption. This document will continue to be updated and refreshed in the coming months and years. The document includes the Council's Medium Term Financial Plan for the following three years (2014/15 to 2016/17) along with commentary and the impact of the current financial year (which represents the final year of the previous Medium Term Financial Plan) and indications of the longer term financial outlook for the Council. Alongside the Business Plan and Financial Strategy, and Medium Term Financial Plan, Council will also be setting the Council's revenue and capital budget for 2014/15. A Council budget book is being produced to reflect the impact of the first year of the Medium Term Financial Plan and to allow the Council to formally set the budget for 2014/15.

- 4.4 The Business Plan sets out the Council's approach to redesigning everything we currently do, to make best use of the resources we have available. The document itself has been available on the Council's website for review and consideration as part of the budget consultation process. Additionally, through the Council's Scrutiny process and a series of Rapid Action Groups, the Business Plan and Financial Strategy has been open to robust review by all Members of the Council.
- 4.5 The Business Plan and Financial Strategy identifies a funding gap of £80m over the next three financial years. Details of the basis for deriving this figure are set out in the document alongside proposals identified to meet this funding gap.
- 4.6 The phasing of savings required to produce a balanced budget is as follows:
- 2014/15 £41.531m
  - 2015/16 £20.136m
  - 2016/17 £18.333m
- 4.7 Work has been undertaken to ensure that the savings proposals and budget requirements align to allow the Council to set a legal and balanced budget for 2014/15 by 1 April 2014. This is detailed in the Strategic Financial Overview section of the Business Plan and Financial Strategy.
- 4.8 The proposals identified to balance the budget over the same period are as follows:
- 2014/15 £39.892m
  - 2015/16 £24.614m
  - 2016/17 £15.494m
  - Three year total £80.0m
- 4.9 Details of the phasing of proposals to meet the profile of the funding gap is set out in the attached Business Plan and Financial Strategy. In summary:
- Specific savings proposals to the value of £80m have been identified
  - Proposals totalling £39.892m have been identified for 2014/15.
  - Revision and rephasing of growth proposals can reduce the funding gap by up to £6.262m in 2014/15, to date only £1.639m of this is required to be built in.
  - With full delivery of the savings proposals and other measures identified above it will be possible to set a balanced budget for 2014/15.
- 4.10 The proposals put forward for 2014/15 have been subject to a review to consider risks associated with delivery within available timescales. While the total value of all proposals currently exceed the funding gap identified in 2014/15, the timing of delivery and the scale of proposals to be implemented in a short time period represent a significant risk to the authority. For this reason, it is essential that the Council has a reasonable level of reserves in place to help mitigate against this risk.
- 4.11 The Local Government Settlement included details of Council Tax Freeze Grant for 2014/15, including indicative allocations equivalent to a 1% increase in the average 2013/14 Band D amount multiplied by the tax base. In line with previous years the Council has based resource projections on the assumption that there will be no increase in the Council's element of the Council Tax bill. Therefore the

authority is in a position to claim Council Tax Freeze Grant, which for 2014/15 is indicated to be worth £1.307m.

- 4.12 The Business Plan and Financial Strategy identifies the approach for the future transfer of services to ip&e; the Council's wholly owned company. The Financial Strategy takes account of any known transfer of services to ensure that the Council's financial position is understood and reflected ahead of any decision taken to approve a transfer. A number of areas are under review for future transfer to ip&e, and at this stage the transfer of the Programme Management Office and Business Design Team is well advanced. The financial implications of the transfer are set out in the attached Business Plan and Financial Strategy, ahead of the business case for transfer being considered and approved by Cabinet.
- 4.13 The Business Plan and Financial strategy now includes the Council's revised Capital Programme which was considered by Cabinet in January 2015, for approval by Council in February. In line with previous years and in accordance with the regulations, it is necessary to approve a Capital Allowance of £1million for 2014/15 to enable the Council to retain in full, capital receipts received from the disposal of HRA assets (excluding Right to Buy sales). The capital receipts received from such sales are reserved for expenditure on the Council's housing stock.

## **5 Approval of 2014/15 Budget**

- 5.1 The budget for the 3 years 2014-2017 is set out in the Strategic Financial Overview section of the Business Plan.
- 5.2 The resource and expenditure projections identify the funding shortfall of £80m over the period 2014-2017, £41.531m falling in the next financial year 2014/15. The gross budget for 2014/15 is detailed as £572.139m after savings. This gross budget includes an adjustment of £16.491m for reductions around the internal market and support services costs and an adjustment of £28.366m for the internal market to ensure the costs of these services and the recharged cost and income for these services are no longer both reflected in the gross budget. This total adjustment of £44.657m has been removed from both the resource and expenditure projections and does not affect the Council's savings projections.
- 5.3 The Councils Revenue and Capital 2014/15 Budget Book provides further details of the 2014/15 budget and can be found on the Council's website.

## **6 Public Consultation 2013**

- 6.1 Join the Conversation 2013 took place during the week of 16 September, with four public meetings held in Oswestry, Craven Arms, Bridgnorth and Shrewsbury. The events were open to the public, and local people were given the chance to submit questions in advance with emphasis being placed on the financial challenge faced by the public sector. Representatives from West Mercia Police, the Clinical Commissioning Group and Shropshire Fire and Rescue were in attendance, in addition to Keith Barrow and Clive Wright from Shropshire Council.

- 6.2 Members of the public posed questions to all members of the panel, with maintaining good public services being the primary concern. Having initially made savings in other ways, all services are now tackling the more difficult issue of reducing the workforce to save money. The panel stressed that every effort is being made to do things differently, with less bureaucracy, and the same or a better outcome for a lesser cost.
- 6.3 Other common themes included questions on locality commissioning, partnerships and the future of ip&e Ltd.
- 6.4 An online survey to share views on the budget proposals was available on the Shropshire Council website from 17 January to 9 February. People were also able to request a paper copy.
- 6.5 The feedback included comments on the consultation itself and the explanation of the proposals. People told us that the language used and the level of detail should be improved.
- 6.6 In response we have reviewed the wording, removed acronyms, unless explained previously in the text, and told people where they can find more budget information. We will also take this on board for future consultations.
- 6.7 In addition, some of the comments received were from partner organisations inviting us to work more closely with them, and we will be following up these responses.

## **Summary of responses**

### **Adult social care**

- 6.8 The most prominent theme relating to responses on the adult social care proposals was the importance of protecting the vulnerable. Comments included: "Dignity and respect for our elderly is essential and they need professional care and commitment."
- 6.9 Points also submitted included not over-burdening those we provide support to with responsibility, and the need for more joined-up thinking with our partners.
- 6.10 In response, we will take these comments on board ensure we engage well with users, their carers and the broader community as we implement our changes. We are clear and reiterate our Council Priorities to protect and help those needing our support to maximise and achieve their potential.

### **Children's services**

- 6.11 The main theme of responses on children's services proposals was that investing in the county's children was a priority, noting the long term impact this has. Comments included: "Children are our future, if we neglect their needs we neglect our future."
- 6.12 The responses also included different views on intervening at early stages to provide support, and the need to encourage more young families to live in Shropshire.

- 6.13 In response, we will focus on ensuring that we provide support for vulnerable children as early as possible. We will work with the family ensuring support is joined up.
- 6.14 By providing help in a different way and in a more sustained way where necessary, we will reduce the demand on high level social work interventions.

### **Public health**

- 6.15 Many respondents highlighted the importance of investment in prevention to reduce health problems such as obesity and long term conditions such as diabetes. Overall they believed that such investment would reduce costs in treatment and care later in life.
- 6.16 Some respondents wished to see some investment in council led services such as outdoor recreation and physical activity promotion programmes such as swimming, particularly for children and older people.
- 6.17 Health promotion for older people was highlighted by some respondents as a way of reducing the potential burden of an ageing population on social care services.
- 6.18 All of the comments received will be taken into account within our future plans.

### **Commissioning**

- 6.19 The consultation prompted a variety of views on commissioning and contracts. These included outlining how there should be more understanding of commissioning processes and that contracts should be reconsidered. One of the comments was: "Management contracts should be reconsidered in the light of quality of service delivery. Commissioning of management is one part but there is need for capital investment..." Some people recommended buying in more services and others did not as they said this was more expensive.
- 6.20 Those who responded also suggested getting volunteers more involved in the work of the council.
- 6.21 We recognise the importance of clarity and consistency in our commissioning activity and hence Shropshire Council is currently seeking feedback on its draft Commissioning Strategy which outlines how we will go about commissioning and some key principles that will be followed. We already have a strong approach to contract management with existing providers and monitor progress against a number of set criteria to ensure quality of provision. In terms of capital investment, we recognise that this may be appropriate for certain commissioned activities and where this is, we aim to reflect this in the contract. For example the recent leisure contract resulted in several hundred thousand pounds of capital investment at a number of leisure facilities including Market Drayton and Oswestry. As part of the model that Shropshire Council follows when deciding what areas to commission a clear business case is developed which highlights the best approach to take. This includes what the best delivery model is, quality of provision, and wherever possible that the work stays in Shropshire.
- 6.22 Shropshire is blessed with many thousands of people who volunteer across the county, not just within Shropshire Council but also in other public sector and



voluntary sector organisations. Shropshire Council alongside West Mercia Police are now leading on an initiative to enhance and further develop the various networks with its VIPs (Volunteers in Public Services) model - it's still at its very early stages but the work has already brought all the key stakeholders and providers together to explore how this important area can be further enhanced. This work will continue throughout 2014.

## **Resources and support**

- 6.23 One of the strong themes in the Resources and Support responses was to cut back office services and bureaucracy. The comments included: "Reduce back end costs to a minimum – this should be your first focus if you really want to protect frontline services."
- 6.24 In response, in the plan we show how, through ip&e and our 'Inspire to Learn' educational support service, we are unlocking our capacity and expertise to trade with other organisations, bringing new income into the county to help support essential services. This means we're doing all we can to retain and ultimately grow high quality local employment by helping unlock the commercial potential from our workforce. Inspire to Learn is just the first of what we plan to be a series of similar commercial offers.
- 6.25 We also explain how our approach to redesigning everything we do based on need is already driving out waste and streamlining processes, cutting costs at the same time as improving what we do for our customers. As part of each end-to-end service review, the role of resources and support teams are carefully considered.
- 6.26 People also shared the view that the council should plan any changes thoroughly, such as office moves and managing assets, and not be dependent on digital technology.
- 6.27 In response we are reviewing the use of all our physical assets, selling or otherwise disposing of those that are no longer essential. As set out in the plan, the council will increasingly move to a more mobile and flexible approach, enabling staff to work on the move, be less reliant on costly and remote office bases and be more accessible to our customers. This shift is being made in tandem with the Broadband through the Connecting Shropshire programme, complementing the commercial rollout. Digital technology is a crucial part of this shift but clearly isn't a panacea for every customer contact.

## **Further comments**

- 6.28 Further comments and suggestions included increasing council tax to minimise the impact of budget reductions, cutting non-essential services, looking at more opportunities to generate income, being certain about what the council wants to achieve with redesign work and continuing to assess this, and making sure we focus on needs rather than cost.
- 6.29 Those who responded also asked us to be open about reductions, said managers should be held to account on making savings, and suggested reducing salaries for senior staff in addition to looking at the possibility of reducing the number of councillors representing the county and councillors' expenses.

- 6.30 Our responses to these comments are given below.
- 6.31 We have built our budget strategy around not increasing council tax and instead redesigning services, because we believe that is the better approach. We believe we can redesign services around the customer to reduce costs, rather than increase funding and perpetuate any inbuilt inefficiency. To increase Council Tax by more than 2% would require us to undertake a potentially costly referendum, and by freezing Council Tax we receive Council Tax Freeze Grant to a value equivalent to 1%. Therefore, the option of increasing Council Tax by 2% would deliver a net benefit of only £1.03m per annum.
- 6.32 Our plan is not to cut non-essential services, but to focus on our priorities and redesign all the services we provide. While we understand the outcomes we are aiming to achieve, we are not certain about how services will look until we have completed the design work. Our priorities include putting the needs of our customers at the centre of everything we do. We will keep the public, users and customers informed as we move through the redesign process, consulting where necessary, to ensure that we make the right decisions.
- 6.33 We will be looking at future opportunities to generate income to supplement the costs of services, our approach to this is set by Council every year as part of our review of Fees and Charges. We believe this is something which will be aided by the creation of our wholly owned company ip&e.
- 6.34 Our Senior Management team and Cabinet are working closely to deliver the Council's budget, with members and senior staff being held accountable for the delivery of savings proposals against their savings targets over the next three years. In relation to allowances, all Councillors approved a 5% reduction in their allowances in 2011/12 which remains in place. All Managers and staff were subject to a 5.4% reduction in their pay as part of changes to terms and conditions in 2011/12 and 2012/13. In addition, Senior Management pay has been separately reviewed and the Head of Paid Service remuneration benchmarked against other local authorities. The data available has shown that Shropshire is the lowest paying authority for senior pay across England for Unitary and County Councils and is on a par with or below District Council levels.
- 6.35 In addition to the budget consultation completed to date, more specific consultation will be undertaken, as necessary, on detailed proposals as these are formulated and the impacts on future service delivery becomes apparent. The process of redesign is fundamental to the proposals being put forward by the Council, and as such it is not possible to identify details of future service provision until the redesign work has been completed, the implications understood and the process of implementation is ready to be commenced.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Financial Strategy 2013/14 to 2022/23 – Cabinet 13 November 2013

Financial Strategy and Capital Programme 2014/15 to 2016/17 – Cabinet 15 January 2014

Robustness of Estimates and Adequacy of Reserves – Cabinet 15 January 2014

Revenue Monitoring Report Period 9 – Cabinet 19 February 2014

Capital Monitoring Report – Cabinet 19 February 2014

Treasury Strategy 2014/15 – Cabinet 19 February 2014

Estimated Collection Fund Outturn 2013/14 – Cabinet 19 February 2014

**Cabinet Member (Portfolio Holder)**

Keith Barrow – Leader

**Local Member**

All

**Appendices**

Appendix 1 Shropshire Council Draft Business Plan and Financial Strategy