



Committee and Date

Council

15 December 2011

Item

9

Public

FINANCIAL STRATEGY - 2012/13 TO 2020/21, INCLUDING PHASE 2 SAVINGS 2012/13

Responsible Officer Rachel Musson

e-mail: Rachel.Musson@shropshire.gov.uk Tel: (01743)
255011

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 Council:

- 2.1 Agree the Phase 2 savings for 2012/13 identified in this report at Appendix 4;
- 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.

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

- 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 is 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'	CSR 'second half'		CSR 2014
	(Notified Allocations)	(Indicative Allocations)		
	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

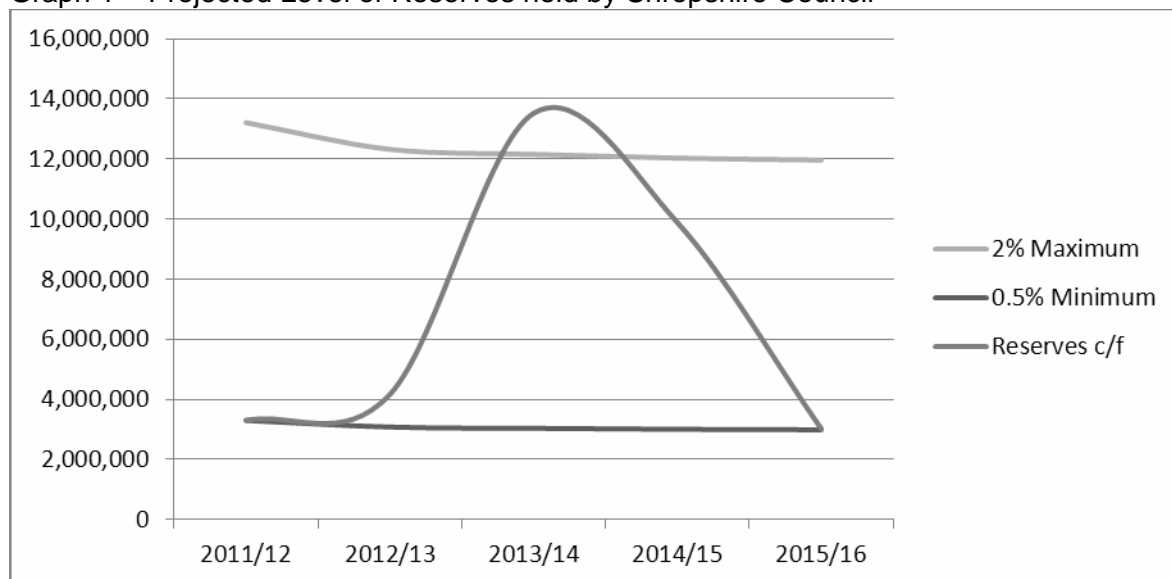
- 5.3.23 The table above shows that in 2012/13 there is a shortfall in identified savings.
- 5.3.24 It should be noted that the financial position in 2012/13 is projected on the basis that 2011/12 expenditure budget issues are dealt with either from within

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.

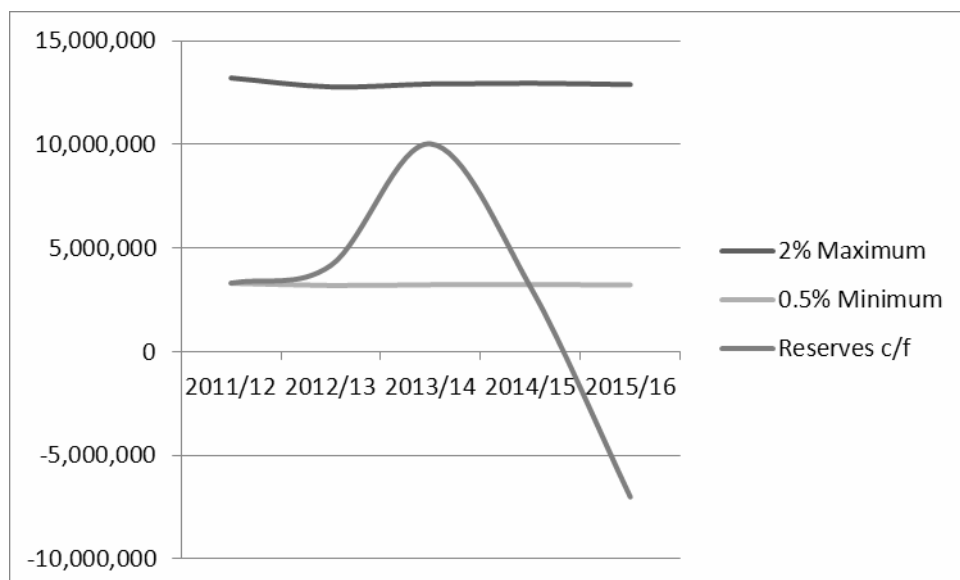
Graph 1 – Projected Level of Reserves held by Shropshire Council



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 were agreed by Cabinet on 16 November 2011 (appendix 6 to that report).

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 Economic – 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

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 Unachievable 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)
- Anticipated 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- additional income in Phase 3 Savings)			
- Loss of WMS Surplus	913,480		
- Projected Shortfall in 2012/13 Income targets based on 2011/12 Period 6 monitor	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

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	

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 a 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.	<i>Based on contractual price inflation and 10% pa for energy costs.</i>		
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. <i>(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.)</i>		

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 2 nd year	Remove contribution from base budget (5,000,000)

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	<p>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.</p>	<p>Stakeholders:</p> <ul style="list-style-type: none"> • 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 <p>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.</p> <p>The use of personal budgets will enable individuals to purchase flexible care arrangements to meet changing levels of need for a range of providers.</p>

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.	<p>Stakeholders:</p> <ul style="list-style-type: none"> • 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 <p>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.</p>

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: <ul style="list-style-type: none"> • 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 <p>EINA only identified low impact areas as this proposal will have a minimum impact on services provided to individuals.</p>

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.	<p>Stakeholders:</p> <ul style="list-style-type: none"> • 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 <p>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.</p>

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	<p>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:</p> <p>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.</p>	<p>Stakeholders:</p> <ul style="list-style-type: none"> • 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 <p>EINA only identified low impact areas as this proposal will have a positive impact in promoting independence.</p> <p>The use of personal budgets will enable individuals to purchase flexible care arrangements to meet changing levels of need for a range of providers.</p> <p>The use of assistive technology will support people to remain at home for longer.</p>

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.	<p>Stakeholders:</p> <ul style="list-style-type: none"> 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 <p>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.</p>

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		

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 15 th September 2011, 10.30am	Enterprise and Growth Scrutiny	Procurement savings
Thursday 15 th 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