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## **FINANCIAL STRATEGY – 2013/14 TO 2022/23**

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### **1 Summary**

In February 2012 the Council agreed savings to be implemented in 2013/14 based on the latest resource projections and estimates of expenditure. These projections have been reviewed and refined as necessary throughout 2012/13 and the report to Cabinet on 16 January 2013 identified that, further to the announcement of the draft Local Government Finance Settlement, the Council's financial position for 2013/14 was in line with the initial projections agreed in February 2012. The January report recognised that further analysis of the draft data would be undertaken during January and that the final financial strategy report would use that information along with the final settlement details to finalise the 2013/14 budget. On 4 February 2013, the final Local Government Finance Settlement was announced. This report updates the Council's Financial Strategy to bring it into line with the final Local Government Finance Settlement. The report also includes updated information on specific grants, the latest estimate of the Council's share of the council tax collection fund and the Council's latest estimate of Business Rates. The update on our expenditure projections will be based on the latest 2012/13 monitoring information and known service and inflationary pressures. This is the final Financial Strategy to be produced this year and includes the formal setting of the 2013/14 budget. The report identifies the Council's position in relation to resources and expenditure with details of gross spend by service area contained within the Council's Revenue and Capital Budget for 2013/14 which is available on the Council's intranet in draft form and will be finalised following Council on 28 February 2013.

### **2 Recommendations**

It is recommended that Cabinet:

- Agree and recommend to Council the 2013/14 Budget as set out within this report incorporating savings approved by Cabinet on 16 January 2013.
- Agree to accept Council Tax Freeze Grant for 2013/14 and 2014/15 totalling £1.3m, on the basis that Council Tax will be equalised down (or frozen) for 2013/14.

## REPORT

### 3 Risk Assessment and Opportunities Appraisal

#### 3.1 Financial Uncertainty

- 3.1.1 From 2013/14, the new funding is based on 50% retention of 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. Conversely, 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 assumptions around Business Rates indicate the latter.
- 3.1.2 Beyond 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.
- 3.1.3 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.
- 3.1.4 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.
- 3.1.5 By creating a financial strategy that looks 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. It is expected, at this stage, that the current funding squeeze will continue well into the future, and it is likely that local government will be required to make further major spending reductions in 2015 and 2016, in addition to those already identified, although the exact scale of these remains unclear at this time. The Council's decision on 3 May 2012 to implement a new strategic commissioning framework for all Council services and to create a new, wholly owned council company to deliver a range of services represents a fundamental part of the Council's approach to reducing the impact of further funding cuts on the scope and quality of essential local public services.
- 3.1.6 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 is introduced this will mean the introduction of new provisions for rating appeals and other fluctuations.

### **3.2 Other Risks and Opportunities**

- 3.2.1 The 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.
- 3.2.2 The Council's 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 need to be clear about the financial expectations of ip&e and how this will impact on the Council's budget.
- 3.2.3 Setting the financial strategy and agreeing the detailed changes necessary to deliver the agreed budget for the next financial year, by February 2013, 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 or being taken by the Council.

## **4 Financial Implications**

- The Council's financial strategy identifies the financial implications of the overall strategic direction of the authority.
- The resource and expenditure projections are based on the final Local Government Finance Settlement and the Council's own estimate of locally retained Business Rates.
- The Council's net budget is fixed for the year based on these estimates. The Council's gross budget includes specific grants and other income which may change throughout the year.
- The current predictions on the level of general reserves based upon the latest projections for 2012/13 spending are contained within this report.
- The Council's proposals for ip&e are considered in separate reports on Cabinet's agenda. The assumptions in the financial strategy are that the resources required by the council to purchase services from ip&e will remain within existing budgets. Any variations to this will be reported as required through the budget monitoring process and in future Financial Strategy Reports.

## **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 ongoing efficiency savings

that help the Council to achieve its overall goals over both the short and long term.

5.1.2 The Council Plan 2011-2013 identified the Council's priorities as follows:

- Economic Growth and Prosperity;
- Flourishing Shropshire Communities;
- Better Health and Wellbeing;
- Better Education Attainment and Work Placed Skills;
- Service Transformation and Organisational Development;
- Greater Public Confidence;

The budget is developed with the aim of delivering these objectives.

## **5.2 Structure of the Financial Strategy**

5.2.1 Section 5.3 considers the Final Local Government Finance Settlement for 2013/14 and Provisional Settlement for 2014/15.

5.2.2 Section 5.4 considers the Council's net and gross resource projections.

5.2.3 Section 5.5 considers 2013/14 expenditure projections and revised savings proposals required as a result of the most up to date monitoring information.

5.2.4 Section 5.6 considers resource and expenditure projections for 2014/15.

5.2.5 Section 5.7 considers the monitoring issues in 2012/13 budget with on-going budget implications.

5.2.6 Section 5.8 considers the Council's Long Term Financial Strategy

## **5.3 Final Local Government Finance Settlement 2013/14**

5.3.1 On December 5 2012 the Chancellor announced his Autumn Budget Statement which sets the context for public spending levels over the remaining two years of the current spending review period. The headline for local authorities was that, although they were to be exempt from a 1% further savings target on public spending in 2013/14, in 2014/15 they would have an additional 2% reduction in their spending. For Shropshire a 2% reduction is estimated at c£2m. The Autumn Budget Statement also identifies that austerity measures will continue an extra year until 2017/18.

5.3.2 The 2013/14 and 2014/15 Provisional Local Government Finance Settlement was published on 19 December 2012. This was followed by a four-week consultation which ended on 15 January 2013. The Government then announced the Final 2013/14 Local Government Settlement and 2014/15 Provisional Settlement on 4 February 2013.

5.3.3 The draft Settlement data focussed on the impact on Spending Power for each authority. On average, Local Authorities would see a 1.7% reduction in spending power in 2013/14 when compared on a like for like basis to 2012/13. For Shropshire the figure was below average at 1.1% and this equates to a £2.69m loss.

- 5.3.4 The Spending Power calculation includes the impact of Start Up Funding (Localised Business Rates, Revenue Support Grant and Top Up Grant inclusive of previous grants that have been ‘rolled in’) and a number of specific grants such as Council Tax Freeze Grant. It does not, however, include all grants and a number of these were announced later (most notably the Public Health Grant worth £8.948m).
- 5.3.5 Analysis of the £2.69m loss indicated that it was inclusive of the withdrawal of Council Tax Freeze Grant (2012/13 allocation) which had already been anticipated within our savings target meaning the headline impact of the draft settlement announcement on existing savings plans was minimal.
- 5.3.6 Previous reports to Cabinet have identified changes to the way the Council’s budget is financed as a result of the introduction of the new Business Rates Retention funding methodology. In summary, the Government has estimated the amount of Business Rates which can be raised locally, allowed local council’s to keep 50% and made adjustments called top ups and tariffs to ensure that the distribution of the funding at the start of the new system is in line with the funding which would have been received under the existing four block funding system.
- 5.3.7 On 4 February 2013, the final settlement data was released and the amount of Revenue Support Grant and top up grant for Shropshire for 2013/14 was confirmed. There was a very small change in start up funding for Shropshire of less than £5,000 due mainly to changes in grants rolled in to the Business Rates system. There was, however, a new unringfenced but one-off transitional grant for sparsely populated areas. Shropshire’s allocation is £637,708 of a national figure of £8.5m. DCLG’s statement on the final settlement stated that this additional funding was being provided for 2013/14 only, to help authorities secure efficiencies in services for sparsely populated areas. For 2014/15 there was a further small change in the amount of Revenue Support Grant which was a late amendment to the draft settlement data.

## **5.4 Net and Gross Resources**

- 5.4.1 The Council’s net budget is funded by Revenue Support Grant, top up grant, locally retained Business Rates, Council Tax and any surplus on the collection fund.
- 5.4.2 The settlement provides fixed amounts for Revenue Support Grant and top up grant and gives a baseline assumption for Business Rates. The Business Rates Baseline figure and top up grant are used to baseline the Authority’s funding so that this figure is used to measure if a safety net payment is required. The Council’s resource projections use the Council’s own estimate of locally retained Business Rates which is higher than the Government’s estimate. This is explained further below.
- 5.4.3 Over the last month the DCLG has issued further guidance on the completion of the National Non Domestic Rates (NDDR) return which identifies the total amount of Business Rates to be collected, the amount to be paid to central government and the amount to be retained locally. This, alongside a review of our own

assumptions on loss on collections, has resulted in a reduction in Shropshire's share of Business Rates of £0.448m. The figure quoted includes an amount to be earmarked for loss of appeals of £2.278m. The Council will have to fund successful appeals pre-dating 2013/14 and the estimate is based on the outstanding list of appeals and local management information. Each year the Council will revisit this assumption and will revise the amount required based on the appeals outstanding.

- 5.4.4 The Council Tax figure is based on the council tax taxbase agreed by Cabinet in December multiplied by the average Band D Council Tax which in 2013/14 has been equalised down (or frozen) across the County. The Council Tax reflects the localisation of Council Tax Support Grant. The estimate of the Council's share of the collection fund surplus has been revised based on the latest position on the collection fund. This has resulted in the estimate of the Council's share of this fund increasing by £0.017m.
- 5.4.5 Table 1 below shows the latest projections on Resources for the Council's net Budget. The variations from the figures reported at Cabinet on 16 January 2013 are shown with further explanation given below.

**Table 1: 2013/14 Revised Resource Projections-Net Budget**

	2013/14 Draft Finance Settlement	2013/14 Final Settlement	Variation from Draft to Final Settlement
	£'000	£'000	£'000
Business Rates retained locally	38,818	38,370	-448
Top up	9,662	9,660	-2
Revenue Support Grant (RSG)	67,076	67,074	-2
Return of top sliced amounts	379	378	-1
Council Tax	115,633	115,633	
Collection Fund	400	417	17
<b>Net Budget</b>	<b>231,968</b>	<b>231,532</b>	<b>-436</b>

- 5.4.6 In January, it was noted that the draft settlement produced a one-off additional resource on our initial projections of £1.983m. The final settlement information shown in Table 1 will mean that this figure is reduced by £0.436m to £1.547m. It is important to note that this is a one off balance in 2013/14 only and needs to be considered across the two years to help smooth the significant reduction in base budget now being projected in 2014/15.
- 5.4.7 To identify the gross budget figure; specific grants, other grants and contributions and fees and charges are added to the net budget. During January work was undertaken to update specific grants to be received in 2013/14. Information has been received for the majority of specific grants including the new Public Health Grant. There are, however, still a number of predicted figures being used to

arrive at the total specific grant figure, most notably the Local Authority Central Spend Equivalent Grant (LACSEG) which in future will be known as the Education Services Grant (ESG). Based on the latest available information, specific grants are estimated to total £283m, an increase of £11m. The increase includes additional schools funding for both dedicated schools grant and pupil premium which will be passported to schools of c£6m and additional funding for the Council including Council Tax freeze grant of £1.3m and Public Health, which is £1.9m above our original assumptions. The Public Health funding received includes an uplift to try and address the underfunding in the County and this uplift is set to continue for the next five years. In 2014/15 the grant is expected to increase by a further £0.9m. As more information on specific grants is received, figures will continue to be amended. The impact of grant changes may be positive or negative within service areas and/or overall and the starting assumption is that any changes are directly passported. Further savings may then be required if the loss of grant can not be reflected in service spending (hence the need to identify savings through the notified loss of EIG grant identified within this report).

- 5.4.8 Figures for other income from non specific grants and contributions and fees and charges have been revised to reflect the latest available information. It is important to note that, although service net budgets are only likely to change if restructuring occurs, the gross budget is more fluid and is varied, subject to virement rules, as new information becomes available as part of the monitoring process throughout the year.
- 5.4.9 The settlement includes the 2011/12 Council tax freeze grant which was initially available for the period of the spending review (4 years to 2014/15) and which has now been transferred into the Councils base funding. In addition, the Council will receive Council Tax Freeze grant for 2013/14 which will be available for 2 years as a specific grant. The 2012/13 Council tax freeze grant was for one year only.
- 5.4.10 The 2013/14 allocation of New Homes Bonus for the Council is £1.374m which means that in total the Council will receive £4.203m in 2013/14 for NHB (inclusive of the previously announced 2011/12 and 2012/13 allocations). In July 2012, Cabinet approved commitments of £3.053m in 2012/13 against funding received in 2011/12 and 2012/13. In January, Cabinet agreed £2.4m of NHB funding available in 2013/14 would be used to meet savings targets on a one off basis. This leaves £1.8m in 2013/14 which is uncommitted at this stage.
- 5.4.11 Table 2 below details the Council Gross Resources for 2013/14:

**Table 2: 2013/14 Gross Resources (Before Savings)**

	2013/14 Draft Finance Settlement	2013/14 Final Finance Settlement	Notes
	£'000	£'000	
Net Budget	231,968	231,532	See Table 1 above
Other Income	410,277	419,932	See Appendix 1
	642,245	651,464	

- 5.4.12 More detail on Resource Projections is contained in Appendix 1 and a complete list of specific grants is attached as Appendix 2.

## 5.5 2013/14 Expenditure Projections

- 5.5.1 In February 2012, the Council approved savings of £20.729m to be implemented in 2013/14. Achievement of this savings target in 2013/14 will close the gap between resources and expenditure identified for 2013/14 of £16.947m and allows a repayment to reserves of £3.782m to cover the shortfall in savings in 2012/13. It has previously been identified that there will be a shortfall of £0.282m at the end of 2013/14 after the achievement of planned savings. This will be addressed within the 2013/14 budget.
- 5.5.2 As detailed above, savings of £20.729m for 2013/14 have been approved by Council. The 2013/14 savings target came on top of 2012/13 savings of £19.828m, and previous achieved savings of £38m to 31 March 2012. These savings are being managed on top of existing services pressures, particularly in Assessment and Eligibility. Monitoring in 2012/13 has highlighted issues with the achievement of 2012/13 savings targets which are being managed in 2012/13 but which may have implications for the 2013/14 budget (particularly where there was an anticipated increase in these savings in 2013/14). Also additional service pressures have been identified for 2013/14 which need managing.
- 5.5.3 An assessment of the achievement of 2013/14 savings undertaken for January Cabinet identified the following shown in Table 3.

**Table 3: 2013/14 Savings**

	£'000
Considered achievable and allocated to Services	9,256
Considered achievable, still to be allocated to services	5,626
Savings which have been considered as not achievable in 2013/14	5,847
<b>Total 2013/14 Savings</b>	<b>20,729</b>

- 5.5.4 The 16 January Cabinet report also identified service pressures amounting to £4.248m for 2013/14 which were offset by applying £1.1m of Council Tax Freeze Grant to £3.148m. Cabinet approved alternative savings of £8.995m to cover the non achievable savings of £5.847m identified above and the £3.148m service pressures. This resulted in an increase in total savings to be achieved in 2013/14 of £3.148m to £23.877m, £20.095m required to balance the budget and £3.782m to be repaid to reserves.
- 5.5.5 The latest expenditure projections are shown in Appendix 3 and a summary of the gap between expenditure and resources is given in Table 4 below:

**Table 4: Expenditure and Resources showing Savings:**

	2013/14 Draft Settlement (16/01/2013 Report)	2013/14 Final Settlement	
	£'000	£'000	
Resources	642,246	651,464	See Table 2
Expenditure Projections	659,192	671,559	Appendix 3
Savings Required	16,946	20,095	
Movement in Savings required		3,148	

5.5.6 The necessity to revise the 2013/14 savings targets but still deliver a robust and balanced budget for 2013/14 has meant that a number of one-off savings (£4.699m) will need to be applied and that these will need to be taken into account when setting the 2014/15 budget and beyond.

5.5.7 After taking account of savings the gross budget for the council for 2013/14 is £654.059m. This budget is detailed at service level in the Council's Revenue Budget Book and can be found on the Council's internet page.

## 5.6 2014/15 Budget

5.6.1 The Final Local Government Settlement included Provisional 2014/15 figures. There was a small change to the provisional Revenue Support Grant for 2014/15 in the final settlement.

5.6.2 Details of 2014/15 resource projections are given in Appendix 1. In previous reports, the additional savings to be met in 2014/15 have been identified as around £8m. The settlement data indicates that the position for 2014/15 is worse than projected. This can be explained by the additional cuts for public services of 2% identified in the Chancellors Budget Statement on 5 December 2012. The settlement data indicates the reduction in resources between 2013/14 to 2014/15 will increase by c£2.8m. In addition, the one off savings in 2013/14 of £4.699m will need to be found. The latest projection on savings to be found for 2014/15 is given in Appendix 4. These savings will be considered as part of the development of the financial strategy going forward and the next three years Medium Term Financial Plan.

## 5.7 Monitoring Issues in the Current Year Budget (2012/13) with On-going Budget Implications

5.7.1 The 2012/13 budget is monitored monthly and Period 9 monitoring is a separate report on Cabinet's agenda for 20 February 2013. A £1.050m overspend is forecast at period 9 resulting mainly from an overspend of £5.0m in Assessment and Eligibility (A&E) offset by action across the authority to deliver compensating underspends elsewhere.

5.7.2 This A&E overspend sits within a background of a savings reduction in 2012/13 of £4.3m with a further £4.05m agreed for 2013/14. There are also issues which have been recognised since the 2012/13 budget was set which have contributed

to the projected overspend including demographic pressures and levels of income generation.

- 5.7.3 There is a risk as at period 9 that the service will be unable to recover from the projected overspend in 2012/13 and this is reflected in the unachievable savings identified in Table 4 above.
- 5.7.4 The Council's policy on balances is to have a general fund balance (excluding schools balances) of between 0.5% and 2% of the gross revenue budget.
- 5.7.5 In October's financial strategy, the level of general reserves projected at 1 April 2013 was £6.429m with a further net contribution of £4.489m during 2013/14 giving a balance of £10.918m for 2013/14. This level of reserve is important as the authority moves into a new funding mechanism with increased levels of uncertainty and is risk assessed annually. It is therefore essential that action is taken to mitigate any potential overspends in 2012/13.
- 5.7.6 The revenue monitor report identifies that if spending pressures are not managed in 2012/13 and the projected overspend materialises then the level of general reserve at the end of 2012/13 will be impacted by this. The current projection is for general reserves to be £6.441m at the end of the financial year. After net contributions budgeted for in 2013/14 this would give the Council a projected general reserve level of £10.930m at the end of 2013/14.
- 5.7.7 The following graph shows the latest projections.



## 5.8 Council's Long Term Financial Strategy

- 5.8.1 Given the country's current economic position it is likely that austerity measures will continue beyond the current spending review period which ends in 2014/15. In the Chancellors Budget Statement on 5 December 2012 he stated that the austerity measures would continue until at least 2017/18.

- 5.8.2 The current indications are that the level of savings required from 2015/16 will be at a similar level to the current spending review period, which is a reduction of 28% over 4 years. For Shropshire, when considered alongside the need to adjust the budget for unavoidable growth and inflation, this is estimated to result in annual savings targets of between £15m and 20m each year. This figure will be affected by the amount of locally raised Business Rates, either positively or negatively. It is believed that a full four year spending review may not be published in 2014, rather a single year spending round published for 2015/16 only, increasing uncertainty further.
- 5.8.3 It is unlikely that the Council will be able to continue in its existing form in future years and the Council has already started to plan for a future with further reduced resources. The paragraphs which follow identify some of the ways that the Council will be working differently in the future and how it is responding to financial and service pressures to create a more customer centric approach that enables customers to efficiently achieve the desired outcomes.
- 5.8.4 The likelihood of a reduction in resources, the requirements of the Localism Act and the desire to continue to provide high quality services all meeting the stated outcomes of the Council have lead the Council to consider how services will be provided in the future. The Council is considering how to become a future commissioner of services and outcomes on behalf of the residents of Shropshire.
- 5.8.5 Over the next 18 months Shropshire Council will accelerate its approach to commissioning, building on the work that has been done to date as well as embracing a new approach, with local members at the heart of it.
- 5.8.6 Local Commissioning will be led by local members alongside our partners in the public, private and voluntary sector to help design services 'from the ground up'. This will be done using local intelligence alongside strong engagement with the community, to understand what the demands are in a community, how much is spent on services and how services are delivered at present.
- 5.8.7 This will help shape local outcomes on what is important to these communities and what should be prioritised. Services will then be developed and prototyped in new and innovative ways to drive out duplication and inefficiencies and increase customer value. Once this is understood, services can then be commissioned out to the Shropshire market place, knowing that what is needed can be delivered in a different way and at a significantly lower cost. This commissioning and governance of place will also be managed and led locally, creating a truly local approach to commissioning of services.
- 5.8.8 Local commissioning will run alongside existing activity such as deep dive service redesigns – current examples include those in Adult Social Care (Gusto and People2People), Highways (Edge to Edge) and Economic Development (Project North) and also strategic commissioning – done on a wider scale, such as that recently undertaken in Highways and Leisure.
- 5.8.9 As these new approaches are developed the role of Shropshire Council will move quite quickly from service provider to service specifier and will mean less people will be employed directly by Shropshire Council, with more either moving to ip&e as

Shropshire's key provider of choice, the voluntary and independent sector or other delivery models such as Town Councils and staff mutuals.

- 5.8.10 The likely savings are expected to be significant and based on smaller scale prototyping already undertaken, should deliver upwards of 50% of existing budgets across Shropshire Council. With the first locality identified (Church Stretton) to be ready to commission services for the town by the end of June, a much clearer idea of the level of savings will be known at this time.
- 5.8.11 Since the Council made the decision in May 2012 to create a wholly owned Council company, subsequently named ip&e, considerable work has been undertaken to establish this company and agree a strategic contract between the council and ip&e which clearly identifies the objectives of the arrangement and the way in which it will work. A key part of this work has been about ensuring that robust governance arrangements are in place and the financial plans for transfer of services/outcomes to ip&e are financially sound and realistic. This work will continue as individual service plans are developed over the coming months.
- 5.8.12 A separate report on this Cabinet's agenda provides more detail on the work undertaken to date on ip&e. Detailed Business Plans for services proposed for transfer to ip&e are currently being developed.
- 5.8.13 It will be important to distinguish between the financial implications for ip&e as detailed in the ip&e Business Plan and that for the Council. The final ip&e Business Plan will include the income and expenditure projections for services of which only some will be provided for and paid for by the Council. The Council's financial position for the purpose of financial planning will be that the current expenditure and income budgets relating to the services to be transferred continue unchanged. If these assumptions need to be varied, this will be done in line with approvals required in the Council's financial rules. Appendix 5 details the resources identified for the services currently planned for transfer in 2013/14 and also provides some examples of why it may be necessary to revise these resource projections.
- 5.8.14 The Council will need to adapt to its changing circumstances by reviewing the way in which it apportions overheads and recharges costs between services. The ability to control and flex support costs and understand the impact of overheads on services will become more and more important in the new Council approach.
- 5.8.15 The Council is focused on ensuring the right people deliver the right services in the right way for Shropshire residents. By developing ip&e, we will have more flexible ways to give Shropshire people what they deserve.
- 5.8.16 As services transfer, the Council will become smaller, focusing on a commissioning model and developing the internal talent essential to maintaining quality of services through outcome driven commissioning. We will nurture our remaining staffing resource, ensuring we procure effectively, deliver efficiently and reduce the reliance on central government funding in the future as our grant levels continue to decrease.
- 5.8.17 The staffing structures at the Council are evolving significantly to reflect this, with a fresh, streamlined senior management team, dedicated to rolling out a reflective structure of talent and efficiency throughout the authority.

- 5.8.18 As the Council considers services for potential transfer to ip&e so it will have to ensure the commercial viability of services. This may involve a review of support costs as identified above and will also involve a consideration of working practices, charging regimes and market forces.
- 5.8.19 Another key change for the Council is the introduction of Universal Credit by the Welfare Reform Bill which fundamentally changes the work of Local Authorities in relation to benefit administration. Universal credit will be administered nationally putting some 80 council jobs at risk. The Council is currently exploring opportunities to assess the viability of working with a third party supplier to administer support schemes which the government are localising for a wider geographical area to protect and even enhance local employment opportunities.
- 5.8.20 As noted earlier in the report, the Council has received a ringfenced grant to cover the cost of providing Public Health services which have transferred to the Council. The change in responsibility for Public Health should enable the Council to influence the factors that adversely affect the health and wellbeing of local people. The Joint Strategic Needs Assessment has identified that there is a significant difference in life expectancy between the most and least affluent sections of our population, namely 6.5 years for men and 4 years for women. The long term objectives for Public Health are therefore to a) reduce health inequalities and b) improve the life expectancy and quality of the life for all.
- 5.8.21 Whilst a detail analysis of the new grant that was announced in January 2013 is being undertaken, it is assumed that the Department of Health has allocated sufficient funds to support existing NHS responsibilities that are transferring to the Local Authority. If this assumption is correct then there will be an opportunity for some investment in the coming year in activities such as Obesity Prevention and Mental Health Promotion that have been under-resourced in the past and have been identified in the Health and Wellbeing Strategy.
- 5.8.22 There will be step changes in education finance over the next few years. The number of Shropshire academy schools will increase from the current 4 in January 2013, to 9 on 1 April 2013 (8 secondary and 1 primary). There is every probability that the number of Shropshire academies will increase in the next 12 months and beyond.
- 5.8.23 There will be an impact on the amount of Education Services Grant the Council receives, which is primarily based on pupil numbers. As the numbers of pupils in academies increase the level of Education Services Grant will inevitably decrease. This will impact on those elements of retained education support services currently being underwritten by the grant. Work is currently underway to model the likely reductions in the Education Services Grant and the effect on budgets for education support services. This will add to the pressures already being faced with meeting the Council's budget reduction targets and will be factored into the review of staffing and service structures as the options for the future commissioning and delivery of education support services are considered.
- 5.8.24 In addition to the financial impact of schools gaining academy status, the number of children of statutory school age will continue to fall until at least 2015. The number of

primary age pupils will start to rise but is expected to only reach the level of 2012. The size and location of housing developments will influence the demand for school provision.

- 5.8.25 The number of children with additional learning needs , and with disabilities, is expected to rise. The number of children in the looked after system has seen an upturn in 2012/13 and will need to be carefully managed in 2013-2015.
- 5.8.26 Further changes will arise from the development of new initiatives and offers to people approaching Adult Social Care for support have seen a focus away from a menu driven council funded offer. Gusto is an example whereby supporting people to remain connected with families, communities and interest as a means of enabling people to remain healthy and well has been a positive approach to prevention. Equally the Social Work Practice Pilot (People to People) has shown that focusing on an individual's abilities, networks and local community support has delivered better outcomes and reduced costs to the council. These examples will be explored further and where appropriate expanded and regularised.
- 5.8.27 Developing and supporting individuals to self-support will become a much more important focus in the offer of support and expectation on the service
- 5.8.28 Shropshire faces significant demographic challenges both in relation to the increasing number of elderly people as well as those elderly people aged over 85. Equally there are growing numbers of people who have life limiting conditions either as a result of accident or disability that require high levels of support and therefore associated funding. In addition to the increase in overall numbers the type of support requested is often disproportionately expensive and therefore work will be needed to ensure that the most cost effective support is provided whilst offering as much choice as possible.
- 5.8.29 The Council jointly with the Shropshire Business Board has put in place a new Economic Growth Strategy at the end of 2012 to run till 2016. It has been written from the perspective of the business community and is based on collaboration to unlock private sector growth. The role of the Council is very much to make sure the conditions are in place to facilitate this growth. The key priorities are accelerating business growth, infrastructure for growth, stimulating our growth sectors and our skilled and loyal workforce. The strategy will have detailed delivery plans led by our business leaders on the Board. It will drive new jobs and higher business growth and lead to an increase in business rates paid, a reduction in benefits claimed and greater vitality in our market towns.

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

Financial Strategy 2012/13 to 2020/21 - Council 23 February 2012

Financial Strategy 2013/14 to 2022/23 - Cabinet 4 July 2012

Financial Strategy 2013/14 to 2022/23 – Cabinet 17 October 2012

Financial Strategy 2013/14 to 2022/23 – Cabinet 16 January 2013

**Cabinet Member (Portfolio Holder)**

Keith Barrow - Leader

**Local Member**

All

**Appendices**

Appendix 1 Net and Gross Resource Projections

Appendix 2 Specific Grants 2013/14 and 2014/15

Appendix 3 Financial Summary

Appendix 4 2014/15 Provisional Savings Target

Appendix 5 Financial implications of ip&e for the Council

SHROPSHIRE COUNCIL - NET AND GROSS RESOURCES PROJECTIONS SUMMARY 2012/13 TO 2014/15										
	2012/13	SCT v2.5			2013/14	2013/14 Notes & Assumptions	2014/15	2014/15	2014/15	2014/15 Notes & Assumptions
		2013/14 ORIGINAL	2013/14 REVISED	2013/14 DRAFT SETTLEMENT						
	£	£	£	£	£	£	£	£	£	£
<b>RSG</b>			59,555,104	67,076,435	67,074,002	Revised based on SCT Model V2.5. Final Figure is greater due to the significant reduction in Top slicing for NHB and Safety Net/Capitalisation	50,932,258	55,475,903	55,528,139	Estimate SCT Model V2.5, Final Draft Settlement
<b>Business Rates Retention Allocation:</b>										
NDR (as raised and then retained locally)			37,557,653	38,818,015	38,370,380	Local projections based on returned NDR1	37,855,516	39,128,559	38,677,343	Local 2013/14 projections inflated
Top Up			8,332,498	9,661,545	9,659,912	Final Settlement	8,524,146	9,957,875	9,956,192	Final Settlement
Safety Net Payments			0				0			
NDR Surplus/Deficit on Collection Fund			0				0			
Prior year adjustments (e.g. correction to safety net payments)			0				0			
<b>TOTAL START UP FUNDING RECEIPT:</b>			<b>105,445,255</b>	<b>115,555,995</b>	<b>115,104,294</b>		<b>97,311,920</b>	<b>104,562,337</b>	<b>104,161,674</b>	
<i>Movement on previous year's funding</i>							-7.7%	-0.8%		
<b>Return of amounts topsliced from RSG/BRRA Allocation</b>										
Share of £2bn unused New Homes Bonus topslice			5,172,181	379,000	378,230	Final Settlement Figure	4,022,140	667,408	667,408	Estimate SCT Model V2.5 estimate
Share of returned damping (unused safety net held back)			1,057,055	0	0	This may be an in year bonus. More information required	2,452,200		0	This may be an in year bonus. More information required
<b>TOTAL FUNDING FROM CENTRAL/LOCAL SHARE</b>			<b>111,674,491</b>	<b>115,934,995</b>	<b>115,482,524</b>		<b>103,786,260</b>	<b>105,229,745</b>	<b>104,829,082</b>	
<i>Movement on previous year's funding</i>							-7.1%			
<b>Taxbase</b>	109,998	110,218	110,218	99,280	99,280	Actual Council Tax taxbase determined for 2013/14	110,438	99,478	99,478	0.2% increase on 2013/14 Council Tax Taxbase
Assumed Reduction in Taxbase due to Council Tax Support Grant			11,781				11,781			
<b>Council Tax Income</b>	<b>129,727,877</b>	<b>128,372,806</b>	<b>114,478,707</b>	<b>115,632,994</b>	<b>115,632,994</b>	<b>13,894,099.4372</b>	<b>114,907,909</b>	<b>115,864,260</b>	<b>115,864,260</b>	Council tax Freeze assumed
<b>Collection Fund Surplus</b>	<b>1,908,777</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>416,666</b>	Actual	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	Estimate
<b>TOTAL NET RESOURCES - 2013-14 onwards</b>	<b>218,769,494</b>	<b>215,408,989</b>	<b>226,553,198</b>	<b>231,967,989</b>	<b>231,532,184</b>		<b>219,094,169</b>	<b>221,494,005</b>	<b>221,093,342</b>	Surplus required for Losses on Appeals Provision
			-1.5%	3.6%	7.7%					
<b>GOVERNMENT GRANTS</b>	296,812,920	296,812,920	296,812,920							
2011/12 New Homes Bonus		1,791,669	1,791,669							
2012/13 New Homes Bonus		1,037,914	1,037,914							
2013/14 New Homes Bonus			161,029							
2012/13 Council Tax Freeze Grants		(3,224,665)	(3,224,665)							
Anticipated Grant Changes		(1,500,000)	(1,000,000)							
Grants Transferred into BRRS (w.e.f. 2013/14 and contained within amounts above)			(30,849,745)							
Reduction to grants transferring into BRRS			(8,355,434)							
Changes to Existing Grants			(419,702)							
New Grants (includes return of LACSEG amounts to fund central maintained schools)			15,921,280							
<b>GRANTS</b>	<b>296,812,920</b>	<b>294,917,838</b>	<b>271,875,266</b>	<b>271,875,266</b>	<b>283,088,422</b>	Latest information, still awaiting LACSG	<b>271,875,266</b>	<b>271,875,266</b>	<b>282,801,029</b>	Based on latest information
<b>OTHER GRANTS &amp; CONTRIBUTIONS</b>	<b>24,007,558</b>	<b>24,007,558</b>	<b>24,007,558</b>	<b>24,007,558</b>	<b>30,715,036</b>	Adjusted for Latest Monitoring information	<b>24,007,558</b>	<b>24,007,558</b>	<b>30,715,036</b>	2013/14
<b>FEES &amp; CHARGES</b>	<b>62,243,236</b>	<b>62,243,236</b>	<b>62,243,236</b>	<b>62,243,236</b>	<b>61,627,962</b>	Adjusted for Latest Monitoring information	<b>62,243,236</b>	<b>62,243,236</b>	<b>61,627,962</b>	2013/14
<b>INTERNAL MARKET &amp; INTERNAL RECHARGES</b>	<b>52,151,460</b>	<b>52,151,460</b>	<b>52,151,460</b>	<b>52,151,460</b>	<b>47,095,263</b>	Revised Figures	<b>52,151,460</b>	<b>52,151,460</b>	<b>47,095,263</b>	2013/14
Total Income outside of Net					422,526,683				422,239,230	
Includes Savings of					2,594,910				2,594,910	
<b>TOTAL GROSS RESOURCES - 2013-14 onwards, after Savings</b>	<b>653,984,668</b>				<b>654,058,867</b>				<b>643,332,632</b>	
<b>TOTAL GROSS RESOURCES - 2013-14 onwards, before Savings</b>	<b>653,984,668</b>	<b>648,729,081</b>	<b>636,830,717</b>	<b>642,245,509</b>	<b>651,463,957</b>		<b>629,371,689</b>	<b>631,771,525</b>	<b>640,737,722</b>	

SPECIFIC GRANTS 2013/14 & 2014/15	2013/14	APPENDIX 2
	2014/15	2014/15
	£	£
Dedicated Schools Grant	177,906,000	177,906,000
Education Services Grant	5,808,548	5,621,764
Local Reform & Community Voices Grant	244,116	251,735
Quality in Community Services - Private Finance Initiative	1,522,650	1,522,650
Waste - Private Finance Initiative	3,185,610	3,185,610
2011/12 New Homes Bonus	1,791,669	1,791,669
2012/13 New Homes Bonus	1,037,914	1,037,914
2013/14 New Homes Bonus	1,373,792	1,373,792
Housing Benefit Administration Subsidy	1,738,754	1,738,754
2013/14 Council Tax Freeze Grant	1,309,288	1,309,288
Public Health Grant	8,948,000	9,843,000
Homelessness Main Grant	528,000	528,000
<b>Local Services Support Grant</b>		
- Supporting Better Housing Management	36,582	36,582
- Community Safety Grant		
<i>Stronger Safer Communities</i>	60,480	60,480
<i>Young People's Substance Misuse (Home Office)</i>	25,000	25,000
- Extended Rights to Free Transport / General Duty to Promote Sustainable Travel	397,677	397,677
- Lead Local Flood Authorities	89,263	89,263
Pupil Premium Grant	6,080,000	6,080,000
Former LSC - School Sixth Forms	5,908,350	5,908,350
Learning and Skills Council	641,190	641,190
NNDR Administration Grant	449,890	449,890
Mandatory Rent Allowances: Subsidy	53,280,000	53,280,000
Rent Rebates: Subsidy	8,317,740	8,317,740
Magistrates Courts Loan Charges	90,570	9,850
Tackling Troubled Families	506,400	506,400
Community Right to Challenge New Burdens	8,547	8,547
Youth Justice Board - Children on Remand (Transfer of Responsibility)	46,350	47,770
Adoption Reform Grant	TBC	TBC
Local Sustainable Transport Fund	893,000	893,000
Supporting Community Transport	189,980	-
Bikeability	80,000	-
Social Fund Grant	566,882	558,636
Community Right to Bid	7,855	7,855
Council Tax Support New Burdens Funding	130,617	122,623
Local Enterprise Partnerships Core Funding Grant	250,000	250,000
Efficiency Support for Services in Sparse Areas Grant	637,708	-
Anticipated Reduction In Grants	(1,000,000)	(1,000,000)
<b>TOTAL</b>	<b>283,088,422</b>	<b>282,801,029</b>

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

	2013/14	2014/15	2015/16-TBC
	£	£	£
<b>Expenditure</b>			
<i>Original Gross Budget Requirement (As per 2012/13 Budget Book)</i>	653,984,668	671,558,837	669,341,971
<i>Adjust for NHB-2011/12 and 2012/13</i>	2,829,583		
<b>Adjusted 2012/13 Gross budget</b>	656,814,251		
<b>Adjust for:</b>			
- Changes to T&C Savings (1.9% not 2.7%)	500,000		
<b>Inflation</b>			
- Prices	2,617,074	2,737,810	
- Pay	1,071,783	1,082,501	
- Pension Costs	315,810	330,030	
<b>Committed Growth</b>			
- Debt Charges (Reduced as part of Savings)	2,600,000	2,600,000	
<b>New Growth</b>			
- Demography: Older People			
- Demography: Adults with Learning Disabilities (Transition Cases)	165,000		
- Carbon Reduction Commitment Tax			
- Personal Social Services	219,839		
- Contribution to Balances		(5,000,000)	
- Elections (2013/14 only)	700,000	(700,000)	
- Increments	1,308,000	942,000	
- Surplus/(Shortfall) increments	192,000	(942,000)	
- Transformation(2012/13 only)	(852,371)		
New Service Pressures	2,530,000		
<b>Changes to Expenditure reflected in Resources</b>			
Changes in Specific Grants from previous year inclu New Responsibilities	19,234,229	(287,393)	
Benefits (assume at same level as reduction in Resources)	(18,740,578)	(197,936)	
Virements affecting Gross	(940,899)		
<b>Business Rates Retention</b>			
- Provision for Losses on Appeal	2,277,816		
- Provision for business rate decline (before safety net)	0	0	
- Surplus/(Shortfall) Available for Provision	1,546,883	-1,546,883	
- Surplus/(Shortfall) Available for Provision		(1,234,994)	
<b>Gross Budget Requirement (Including Internal Recharges) Before Savings</b>	671,558,837	669,341,971	
Savings-2013/14	-17,499,967	-17,499,967	
<b>Gross Budget Requirement (Including Internal Recharges) After Savings</b>	654,058,870	651,842,004	

## APPENDIX 4

## 2014/15 Budget Outlook

	£	
Resources	638,201,242	
Expenditure	<u>666,805,491</u>	
	-28,604,249	
2013/14 Savings	<u>-20,094,882</u>	
2014/15 Savings Target	-8,509,369	
Existing Shortfall in Savings	-282,000	Estimate
Existing Deficit in Budget	-1,234,994	
One off Savings in 2013/14	-4,699,000	
Corporate Budgets		
Savings not yet Allocated	-2,500,000	Estimate
Closedown issues	?	
<b>Estimated Savings Target for 2014/15</b>	<b>-£17.5m</b>	

## Financial Implications of ip&e for the Council

### Overview

1. It is important to distinguish between the financial implications for Shropshire Council and the financial implications which will be shown in the ip&e Business Plan. The Council has to start from the basis that, where services transfer, the resources currently allocated to the services in the Councils budget will be the resources that the Council has to purchase those services from ip&e. For ip&e, the total income it receives will include income earned from delivering services on behalf of the Council and also from other sources.
2. The table below identifies the current 2013/14 budget for the services identified for transfer in 2013/14.

**Table 1: 2013/14 Council Budget for Transferring Services**

2013/14	Shire Services	Shared Services
Gross Budget	13,890,530	13,593,550
Income	-13,210,025	-13,547,770
<b>Net Budget</b>	<b>680,505</b>	<b>45,780</b>

3. There are a number of issues around the current budgets for these services which are discussed below.

### Shire Services

4. Shire Services operate as a trading account within the Council's accounts with a view to breaking even i.e. covering their costs by income. For the last few years, the Council has supported the trading activity by c£0.680m. Initially this budget was identified to cover additional costs arising from job evaluation and the need to replace obsolete equipment. Consideration needs to be given to whether this budget will continue to be allocated to Shire Services. The Council's budget currently continues to allocate this amount for Shire Services in 2013/14.
5. The Shire Services income figure is made up of income from Shropshire Council for the delivery of services, income from schools both within and outside Shropshire and income from other organisations. Income currently received from Shropshire Council is estimated to be £1.2m, but more work needs to be undertaken to verify this figure.
6. The Council therefore has a total budget of c£1.9m currently earmarked for Shire Services. Going forward, the Council could reasonably assume that it would pay no more than this amount and could possibly forecast a reduction in this budget as, in the role of sole shareholder, any profit to be distributed would be paid as dividends to the Council.
7. The relationship with Shire Services involves the Council buying services from Shire Services and Shire Services buying services back from the Council, currently through the internal

market. In total these charges are c£0.280m including accommodation. Any reduction in the amount paid for these services will have an impact of the remaining Council budget unless a corresponding reduction in expenditure is made.

8. For Shire Services, therefore, the Council's financial planning will start from the basis that they make a net budget contribution to ip&e for Shire Services of £0.680m, the available purchasing budget is £1.2m and £0.280m will continue to be paid for Support Services and accommodation.
9. The Business Plan for Shire Services will take account of the Council transactions identified above as well as other transactions it has or plans to have with third parties.
10. The key financial interaction between Shire Services and the Council is shown in Table 2 below:

**Table 2: Councils Budget with Shire Services-*Estimate***

	£'000- Estimate
Base Budget Contribution	680
Purchasing Budget	1,200
Income from Charges for Support Services and Accommodation	-280
Net Council Budget	1,600

### **Shared Services**

11. The Shared Services Budget is more complicated. The budget identified in Table 1 above covers the services currently identified as Shared Services. A review of the scope of Shared Services is being undertaken and this could increase or reduce the amount of budget identified to deliver services. The income to pay for these services comes from both the Council and external customers. Approximately 80% of the income is received through the internal market from Council services with the remainder coming from external customers. Once the scope of Shared Services is agreed, a clear understanding of the Council's budget available to buy services will be identified.

### **Ip&e Management**

12. The management costs of ip&e also have to be funded. At present the Council has no budget identified to contribute to the management costs of ip&e.
13. The Council has agreed a loan to fund management costs in the first two years. Repayment will commence one year after the first drawdown date during which time interest will accrue.
14. The Business plan of ip&e will need to allow for recovery of management costs in the longer term and repayment of the loan.

### **Variations to the Council's current budget commitments and income**

15. As stated the Council's starting point will be the budget currently allocated to purchase services.
16. This budget will then be compared to the required payment to ip&e. Any changes to the Council's budget will then be agreed. Any adjustments will require approval in line with the current financial rules and will be dealt with, as required, through the budget monitoring reporting process.
17. Examples of variations which could affect the Council's budget include:
  - Reduction in income for accommodation if ip&e decide to use alternative office accommodation
  - Increase in purchasing budget to allow development of new working arrangements, probably on a one off basis
  - Additional income for the Council in the form of dividend payments
  - Any effect on the Council's VAT exempt activities percentage
  - Knock on effect of transfers out of the pension scheme

### **Ip&e Business Plans**

18. The ip&e Business Plans will be produced on the basis of robust estimates of expenditure and income projections for the services. These projections will take account of the Councils current available budget.
19. A review of the plans will allow the Council to amend its current budget assumptions as required. Any adjustments will require approval in line with the current financial rules and will be dealt with, as required, through the budget monitoring reporting process.