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FINANCIAL STRATEGY 2015/16 – 2017/18

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1. Summary

This report provides a refresh of the Council's Business Plan and Financial Strategy 2014/15 to 2016/17 which is attached as Appendix 1 and includes the Council's three year Medium Term Financial Plan (MTFP) covering the same period.

The overall funding gap over the three year period remains at £80m, although the make up of this gap has changed. Proposals identified to bridge the funding gap have also been refreshed and reviewed. This has enabled a view to be taken of how the 2015/16 financial year has been impacted by progress throughout 2014/15 and action taken to ensure the financial strategy is not destabilised by non-achievement of proposals or in-year pressures that have an impact on the base budget going forward.

This overview includes the latest estimates of the Council's revenue resources and expenditure. It is set in the context of the Council's other key strategic documents, in particular, the Treasury Management Strategy and the Capital Strategy which is also incorporated within the Council Business Plan.

The Council Business Plan and Financial Strategy 2014/15 to 2016/17 was agreed by Full Council on 27 February 2014. The Plan identified a funding gap of £80m over the 3 years 2014/15 to 2016/17 and sets out the Council's approach to redesigning services and delivering the required savings by making the best use of resources available. The Financial Strategy is a rolling plan which is revised throughout each financial year, usually quarterly, as more information becomes available about the level of resources, service pressures and service delivery changes. On 30 July, the financial projections were revised on the basis of the most up to date information on resource and expenditure projections and also to outline initial projections for 2017/18. Additionally in September an interim report provided information on progress on 2 of the Council's key projects, the University and ip&e. Since then, the ip&e Business Plan has been considered by Cabinet on 15 October 2014 and work around the development of

the University Centre for Shrewsbury has progressed. Council will receive a report on the University Centre Shrewsbury on 18 December 2014.

This report will consider the information from current year monitoring reports and any implications of this for future year's budgets. It will also consider revised information for years 2 and 3, 2015/16 and 2016/17 of the current financial plan and initial projections for 2017/18.

The financial strategy is a key document and part of the Council's Business Plan. The financial implications of all the Council's plans and strategies are reflected in the Financial Strategy.

2. Recommendations

It is recommended that members:

- A. Note that the funding gap of £80m for the period 2014-17 identified in the Council Business Plan and Financial Strategy agreed by Council in February 2014 has been reviewed and retained for planning purposes.
- B. Note the progress made in achieving the agreed savings and agree the amendments and alternative savings identified within the Business Plan and Financial Strategy.
- C. Agree to remove any allocation of council tax support grant to Town and Parish Councils for 2015/16 and future year's council tax reduction scheme.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

Financial Uncertainty

- 3.2. The 2014/15 funding settlement gave illustrative figures for 2015/16 only. There is a risk that these figures are further reduced when the provisional 2015/16 settlement is announced in December 2014 (unavailable at time of writing). Also there is increased uncertainty around funding levels beyond the current parliamentary term. This increases uncertainty both in 2015/16 and future years as previously incoming governments have made in year as well as future year changes to local government departmental expenditure limits.

- 3.3. As government funding reduces, the Council becomes more reliant on locally retained business rates. As detailed in previous reports, a reduction in business rate income in any year would have to be around 10% before a safety net payment would be invoked. This drop is higher than the 7.5% indicated in the funding mechanism as the Council's budgeted business rate income is higher than the baseline level that the 7.5% drop would be measured against.
- 3.4. Locally retained business rates introduce uncertainty to the Council's in year available resources; previously the Council was informed of the amount of redistributed business rates it would receive before the start of the financial year, under the new system the resources the Council actually receives will only be estimated in advance and could vary significantly. Additionally central government retains control of the multiplier for Business Rates. The Autumn Statement released on 3 December stated that there will be a review of the future structure of business rates to report by Budget 2016. This will be fiscally neutral and consistent with the Government's agreed financing of local authorities. They will also publish interim findings from the review of business rates administration in December 2014. Any reduction in the Business Rate multiplier as part of this review would have a detrimental impact on Council funding as 49% of all locally raised Business Rates are now retained locally.
- 3.5. Variations from budgeted revenues for both Business Rates and Council Tax are dealt with through the relative collection fund account. The timing of the availability of the final figures means that adjustments required, i.e. deficits or surpluses on the collection fund, fall 2 years after the year in which they relate. To mitigate the risk of large variations in estimated Business Rates, monitoring of Business Rates income will be further developed and reported regularly, reducing risk as the level and quality of data is increased.
- 3.6. The funding mechanism does not reflect any service needs changes from year to year. It is proposed that the system will not be reset for 7 years i.e. until 2020/21.
- 3.7. As there are changes to the responsibilities of the Council, whether this is a transfer from or to the Council, there is a risk that the change in resources is not commensurate. Examples of service areas where this is a risk include benefits and proposals around Universal Credits and also changes in Adult Social Care required as part of the Care Act.
- 3.8. By creating a Financial Strategy that continues to look beyond the next three years at the longer-term and is regularly updated to reflect new information, the Council is in a stronger position to approach future challenges proactively, rather than reactively.
- 3.9. 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.

- 3.10. The Council has started the financial year 2014/15 with a reasonable level of general reserve to help mitigate against the risk of delay in implementation of the significant savings proposals. It is essential that this is kept under review both in the current year and with a view to future years and balancing the budget.

Other Risks and Opportunities

- 3.11. The Business Plan and Financial Strategy sets the resource parameters within which the Council can commission services to meet its priority outcomes. All risks and opportunities which have a material monetary value are considered within the strategy.
- 3.12. The Council's Business Plan and Financial Strategy recognises that there are risks and opportunities associated with ip&e as it is a wholly owned company of the Council. The development of the Council's future financial strategy will be clear about the financial expectations of ip&e and how this will impact on the Council's budget.
- 3.13. Setting the Financial Strategy and agreeing the detailed changes necessary to deliver the agreed budget for the next financial year, will take into account the requirements of the Human Rights Act, any necessary environmental appraisals and the need for Equalities Impact Needs Assessments and any necessary service user consultation.

4. Background

- 4.1. The Business Plan and Financial Strategy 2014/15 was agreed by Council in February 2014. This plan is now being refreshed part way through year 1 of the plan to ensure that the changing financial and dynamic position of the Council is appropriately reflected in it's key strategic document.
- 4.2. The refresh is not yet complete and is being undertaken in a structured manner leading to a final draft being submitted to Council in February 2015, enabling the Councils budget for the 2015/16 Financial Year to be set. To this end, the main elements of the refreshed document attached at Appendix 1 include a review of the revenue budget (taking account of 2014/15 revenue monitoring reports), a review of resources and consideration of the delivery of our savings proposals both within the current year and 2015/16, thus allowing any revisions from our agreed plan in February 2014 to be scrutinised and reviewed.
- 4.3. Over the winter work will continue to consider further elements within the Business Plan and Financial Strategy, taking account of our key plans and strategies (which are currently being reviewed) in such areas as:
- Commissioning Strategy

- Asset and Accommodation Strategy
- Economic Growth Strategy
- Technology and Customer Access Strategy
- Organisational Development Strategy (including Workforce Plan)
- ip&e Annual Business Plan
- Planning Strategies, such as SAMDev and the Shropshire Housing Strategy
- Health and Wellbeing and Resilient Communities Strategies

4.4. In February 2015, the latest refresh of the Business Plan and Financial Strategy will be complete and will include updated and additional information and financial implications, which, in the meantime, may be the subject of Cabinet and Council reports and decisions as necessary, and will include:

- The Council's capital strategy, including short and long term delivery of capital receipts and other financing options, the current capital programme and future requirements, our emerging asset and accommodation strategy, the impact of large scale initiatives such as broadband roll out, creating the new University and review of our IT Infrastructure.
- Investment opportunities, including how the Council turns physical assets into financial assets, economic growth programmes and initiatives to put the council onto a stable long term financial footing in the light of continued cuts in funding.
- Income generation, ensuring we meet our aims as set out in the Council's Charging Policy and maximise our income earning potential, whether from within the Council or through ip&e, to enable us to support our key services. This will align with the Council's Fees and Charges Report due to be agreed at the same time.
- Further developments around our intention to create a Council that Commissions, integrating our commissioning requirements with ip&e's Annual Business Plan to create a coherent Business Plan for the Council.
- Continued work with our partners to ensure that while the Business Plan represents the Council's vision, this aligns closely with our partners to ensure that together we are meeting the wider needs of the County.
- Our plans for the development of University Centre Shrewsbury.

5. The Current Year Budget, 2014/15

5.1. The 2014/15 financial year funding gap was identified, with proposals to close this gap approved by Council. Cabinet have been kept abreast of

progress in balancing the 2014/15 budget through regular monitoring reports on both revenue and capital. This report considers the latest information reported to Cabinet (Quarter 2 Monitoring Reports) and the impact of emerging pressures and achievement of savings proposals on the three year Medium Term Financial Plan. While the monitoring reports will consider the in-year position and identify measures to ensure we are able to deliver a balanced budget for the year, the Financial Strategy will consider the financial implications over the medium term, to confirm measures are put in place to ensure financial stability and a sustainable financial position through to 2016/17, and will consider whether adequate progress is being made to close the identified £80m funding gap. Savings proposals to meet this gap were identified and agreed in February 2014 and totalled £83.201m over the 3 year period.

- 5.2. Alongside a review of our net expenditure position and the delivery of agreed savings proposals, it is also prudent to refresh the resources position for the council to ensure that the quoted £80m funding gap over the three years of the Medium Term Financial Plan remains appropriate.
- 5.3. The following table provides the breakdown of the savings target and the identified proposals over the three year period

Table 1 Savings Targets and Saving Proposals 2014-17, February 2014

	2014/15	2015/16	2016/17	Total
	£'000	£'000	£'000	£'000
Savings Target (as at February 2014)	41,531	20,136	18,333	80,000
Savings Proposals (as at February 2014)	39,892	24,614	18,695	83,201
Over/(under) achievement	(1,639)	4,478	362	3,201
Cumulative		2,839	3,201	

- 5.4. Revenue Monitoring for 2014/15 has considered the achievement of 2014/15 savings proposals and the Financial Strategy in July provided an update on the RAG rating for all 3 years. Directors and Cabinet members have been working on progressing savings areas and identifying “blockers” to timely achievement of the savings. To this end, the top 30 savings by value across the remaining years of the Medium Term Financial Plan were reviewed and rated Red and Amber. Together the top 30 savings amount to £40m, or almost half of the savings approved as part of our plan, and

actions have been put in place to ensure we have more robust plans in place around their delivery.

- 5.5. The 2014/15 revenue monitoring report is the mechanism for reviewing in year budget control and achievement of savings. It is the impact of the 2014/15 monitoring issues on future years which is taken into account in the financial strategy.
- 5.6. This report includes the latest position on the achievement of savings with particular regard to 2015/16 budget which will be set by Council in February 2015.
- 5.7. The table below provides the latest projections of the funding gap (as detailed in the 30 July 2014 Financial Strategy) and the profile of the savings proposals which are being monitored within quarterly Monitoring reports to Cabinet.

Table 2 Savings Targets and Revised Saving Proposals 2014-17

	2014/15	2015/16	2016/17	Total
	£'000	£'000	£'000	£'000
Savings Target (revised July 2014)	41,531	20,615	18,048	80,194
Savings Proposals (as per Monitoring Reports)	39,892	26,441	16,868	83,201
Over/(under)achievement	(1,639)	5,826	1,180	3,007
Cumulative		4,187	3,007	

- 5.8. The table above shows that the Council's proposals currently measure delivery of savings against a target of £66.333m (£39.892m + £26.441m) by 2015/16. As demonstrated above, implementing and delivery of all of these savings could result in a one-off surplus of £4.187m in 2015/16, but also provides an element of (albeit short term) contingency within our plans.
- 5.9. Directors and Cabinet Members have met to consider the reasonableness of the assumption that £66.333m will be achieved in savings for 2015/16 and to identify any areas where the savings proposals are either unachievable or will not be implemented in time. The following table summarises the position for the Council and forms the basis for the refresh of the proposals within the Business Plan and Financial Strategy attached at Appendix 1.

Table 3 Revised Savings Targets and Proposals as Identified in the Refreshed Business Plan and Financial Strategy

	£'000	£'000
Savings target 2014/15 and 2015/16 combined		66,333
Savings achieved to date (as per Quarter 2 Revenue Monitor)	27,446	
Revised Proposed Savings Target for delivery 2015/16 (as per revised Business Plan and Financial Strategy attached)	37,082	
Proposals slipped to 2016/17	518	
Proposals considered Unachievable	1,287	
Revised Proposals for delivery in 2016/17		16,868
		83,201

- 5.10. In addition to the unachievable and slipped savings identified for 2015/16 there are a number of service pressures that have been highlighted in Monitoring Reports which, while being addressed in various ways in-year, nonetheless have an impact on future years that needs to be recognised. In the main, the areas identified fall within Adult Services and have been highlighted at £5.737m at this stage. Altogether the potential impact on the Council is £7.542m for which new savings proposals are required. Further work is being undertaken between Cabinet and Senior Managers to identify how this additional, emerging gap in future years can be addressed. At the present time, it is considered prudent to highlight this pressure and allocate an additional target in relation to re-sizing the workforce and this is reflected within the attached Business Plan and Financial Strategy. However, this remains only a planning assumption at this stage, with further work being undertaken before Council agrees the budget in February 2015. Additionally, as the initial savings proposals identified above were in excess of the required level of saving in 2015/16 by £4.187m it is feasible that this target could be reduced to £3.355m in 2015/16.
- 5.11. Furthermore, Table 3 above reflects the position as reported in Quarter 2. The level of achieved savings for 2014/15 and brought forward savings for 2015/16 are expected to increase as we approach year end. For example, while the level of 'Green Rated' savings of £27.446m identified above represents the position as at 30 September 2014, this figure will continue

to evolve and move (as will our estimates of on-going pressures) for the remainder of the year.

- 5.12. Changes continue to be made to the way in which Councils are funded through intervention by Central Government, and the implementation of Localised Council Tax Support in 2013/14 had implications on Council funding and local Town and Parish Councils also. In 2013/14 and 2014/15 the Council resolved to pass an element of Central Government Grant to Town and Parish Councils. The Council's developing financial position no longer makes the payment of grant to Town and Parish Councils affordable and it is recommended that this payment is removed.

6. Autumn Statement 3 December 2014

- 6.1. The Chancellor's Autumn Statement does not provide definitive information on Local Government Finance, but does provide indications ahead of the Local Government Settlement expected towards the end of December. The Statement confirmed that local services will not face additional cuts in 2015/16. However, by May 2015, Government funding for councils will be 40 per cent lower than in 2010.
- 6.2. While new devolved powers have been announced for Greater Manchester, there has been no mention of devolution for the rest of England at this time.
- 6.3. The Chancellor also made announcements on multiyear funding settlements and the future structure of business rates, although the detail of these is yet to be considered.
- 6.4. The Autumn Statement appears to confirm that the decisions announced will not be funded through a further reduction in local government funding. However, public spending control remains central to the Government's commitment to reducing the deficit.
- 6.5. The Government has committed to giving local authorities and clinical commissioning groups (in collaboration with NHS England) indicative multiyear budgets as soon as possible after the next Spending Review. The Government will also work towards enabling greater multi-year certainty in funding for schools and certainty for adult education providers where appropriate, in the context of area based strategies. Again, further detail is required before this can be assessed adequately.

7. Longer Term Financial Outlook

- 7.1. The longer term financial outlook as detailed in the Council's Business Plan and Financial Strategy agreed by Council in February 2014 is continually being updated and refined. Details of how the Council is working differently now and how this will develop over the coming years will be set out in more detail over the coming 12 months, ahead of a new Business Plan and Financial Strategy developed for the next Medium Term Financial Plan period of 2016/17 (revised) to 2018/19.

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

Council Business Plan and Financial Strategy 2014-17 – Council 27 February 2014
Financial Strategy – Report 1 – Cabinet 30 July 2014

Cabinet Member (Portfolio Holder)

Keith Barrow – Leader

Local Member/s All

Appendices

Appendix 1 Draft Refresh Business Plan and Financial Strategy