

TELFORD & WREKIN COUNCIL

CABINET – 14 NOVEMBER 2013

SERVICE & FINANCIAL PLANNING 2014/15 – 2015/16.

**JOINT REPORT OF THE MANAGING DIRECTOR AND ASSISTANT
DIRECTOR: FINANCE, AUDIT & INFORMATION GOVERNANCE (CHIEF
FINANCIAL OFFICER)**

LEAD CABINET MEMBER – CLLR BILL McCLEMENTS

1.0 PURPOSE:-

To provide an update on:-

- The projected budget gap through to 2015/16 and
- To consider policy towards future Council Tax Freeze grant offers.

2.0 RECOMMENDATIONS:-

2.1 Members are asked to:-

- Note the updated projections for the budget gap through to 2015/16 and the timetable set out in this report for finalising the Council's 2014/15 budget.**
- Agree that a two year financial strategy will be developed covering the years 2014/15 and 2015/16 to match the Government's spending plans which have been published through to 2015/16.**
- Recommend to Council that, in view of the Government's change in treatment of the 2013/14 Council Tax Freeze Grant the Council should, subject to consideration of any feedback through the Budget consultation process, not increase Council Tax in 2014/15, and instead take the Government's Council Tax Freeze Grant.**

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Co-operative Council priorities?	
	Yes	<i>The service and financial planning strategy is integral to ensuring that</i>

		<i>available resources are used as effectively as possible in delivering all priority outcomes.</i>
	Will the proposals impact on specific groups of people?	
	Yes	<i>The proposals contained in this report will impact on Council Tax-payers.</i>
TARGET COMPLETION/DELIVERY DATE	<i>This report forms part of the process of developing the Council's overall Service & Financial Planning Strategy for 2014/15 which will finally be approved at full Council on 27th February 2014. The final agreed recommendations will be implemented during the 2014/15 financial year.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes	<i>The financial impacts are detailed throughout the report.</i>
LEGAL ISSUES	Yes	<i>Decisions in respect of the Council's budget are a matter for Council but recommendations from Cabinet are material considerations when these decisions are made</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<i>Appendix 1 of the report sets out a number of assumptions that have been used in projecting the potential budget gap. Clearly additional information will become available as time progresses and these assumptions will be updated which is likely to impact on the size of the projected budget gap. The report also details current uncertainties over the duration of the proposed Council Tax Freeze grants and the financial impacts of potential courses of action and refers to the risks and potential opportunities arising from the localisation of business rates.</i>
IMPACT ON SPECIFIC WARDS	Yes/No	<i>Borough-wide impact.</i>

4.0 SPENDING ROUND 2013:-

- 4.1 The Chancellor announced his "Spending Round 2013" on 26th June 2013. As a General Election is scheduled for May 2015, the Spending Round announcements only dealt with national spending plans for

2015/16 and identified £11.6bn further Government savings towards the national deficit reduction programme. The Labour Party have also pledged to match the spending totals for 2015/16 if they win the election. The Chancellor's announcements included a 10% cut in Local Government funding. However, this was a national figure and the impact will vary between authorities. Subsequent announcements indicate that the reduction for this Council will be in the region of 13.7% for 2015/16.

- 4.2 The Chancellor's other announcements included that the Council Tax referendum threshold in 2014/15 and 2015/16 would be set at 2% and it has also been announced that further council tax freeze grants equal to 1% of the council tax base prior to reductions for Local council Tax Support Schemes would be available in 2014/15 and 2015/16.

5.0 OUR STRATEGY

- 5.1 The Council has a long track record of effective financial management with revenue out-turn positions being slightly underspent (within the range 0.04% to 1.42% of budget) over the last 5 years despite the very significant challenges that the Council has faced in delivering over £50m pa ongoing revenue savings since 2009/10. This has seen a reduction of over 1,000 posts, a reduction of more than 50% in the size of the Council's senior management team and reductions of more than 40% in "back-office" costs.
- 5.2 As well as having a successful track record of delivering ongoing savings, this Council is ideally placed to benefit from the Government's financial incentives to allow development. The Borough has in excess of 9,000 approved planning permissions for residential dwellings. Under the new local government finance system introduced on 1st April this year, each new property that is built brings significant financial benefits including council tax (now retained by the Council until the finance system is "reset" which is not scheduled until 2019/20) and New Homes Bonus whilst the marginal cost of delivering services to new properties has, to date, largely been absorbed by making further efficiency measures.
- 5.3 The Borough's policy of being a "Business Supporting, Business Winning" Council will benefit local people by creating local jobs but will also bring significant financial benefits through retention of 49% of the additional business rates on new industrial, commercial and retail premises until the finance system is reset in 2019/20. However, in order to maximise potential investment in the Borough which has a very real advantage in having large areas of developable land and good transport links, it is essential that we do not take the "easy option" and indiscriminately cut the many Council services that make the area attractive as a place to live/locate and expand businesses.

- 5.4 The Council is large enough to have economies of scale and an effective critical mass but small enough to understand the needs and priorities of its communities and to move quickly. We can also operate a shared culture which is a lasting benefit from the “One Council” programme commenced in 2009 and continued and developed further through our Co-operative Council approach. The Council’s culture is becoming increasingly commercial with new opportunities to generate income which can help support existing front-line services actively sought. Recent examples of this approach include the decisions to develop full business cases for a solar farm and a potential investment in 600 properties for rent at commercial rent levels. Clearly all potential investment ideas will be subject to the development of rigorous business cases which will tend to involve some spend being at risk if through the process of reviewing potential investments they are ruled out on the basis of too great a level of risk or unattractive potential returns.
- 5.5 Clearly, although the Council is uniquely placed to benefit from a combination of benefits from a new commercial approach and from significant development opportunities within the area which the Council actively supports, given the scale of cuts to Government grants we will still need to identify further savings. Having made very significant reductions in costs already, these further savings will become increasingly more challenging and will have an increasing impact on front line services rather than back office costs.
- 5.6 The Council has also faced very significant increases in costs as a result of decisions by the former Primary Care Trust (PCT) and now the Clinical Commissioning Group (CCG) over the funding of Continuing Healthcare Cases (CHCs). This has resulted in greatly increased pressures in the Adult Care & Support budget which is currently projected to be around £4m over-spent at year end. However, this must be seen in the context of a transfer of costs from the health service to the Council of £8.5m. (although the CCG has agreed to make a one-off contribution of £2.4m in 2013/14).
- 5.7 The number of people receiving CHC funding in Telford & Wrekin as at 31 March 2013 had fallen to just 56 throughout the whole Borough, at a time when numbers receiving CHC funding are increasing both nationally and in Shropshire. The ratio of CHC cases per 50,000 population in Shropshire is almost four times higher than in Telford & Wrekin when a lower ratio might be expected in Shropshire given the Community Hospital provision available in Shropshire which the NHS does not provide in Telford & Wrekin. This ratio reflects the extreme pressure being placed on Telford & Wrekin Council’s budget and will also reflect additional pressure being placed on “self-funders” within the Telford & Wrekin area.

	Number of people receiving CHC funding per 50,000 population
Telford & Wrekin	17
England	52
Shropshire	64

- 5.8 To get back to the average number per 50,000 population and using a very conservative average cost of a person receiving a relatively high level of care, of £600 per week indicates a level of underfunding by the NHS of around £3.75m. To equate to Shropshire's figures, and using the same very conservative cost per week, an additional £4.68m would need to be made available by the NHS.
- 5.9 Care & Support services account for 36% of the Council's net budget and given the scale of the cuts that we must make and the extreme pressure caused by the CCG's decisions on CHC funding, it is unavoidable that savings need to be made in this area. Therefore a package of measures including reviewing every new and existing care package, working with care providers (77% of the budget is spent with external care providers) to reduce costs and use of new "assistive technology" in place of more costly alternatives where appropriate has been put in place. Discussions are also continuing with the CCG with the intention of seeking an ongoing CHC funding split that is more in line with national norms and therefore fairer to the Council and local "self-funders". Additional pressures will be caused by the need to prepare for and implement new systems to accommodate national Adult Social Care reforms with effect from 2016/17.
- 5.10 Given that the Government's spending plans have only been published at a national level through to 2015/16, it is appropriate to adopt a two year planning horizon, although under current longer term projections it should be noted that further cuts of around £10m pa can be expected (if there is no change to the Budget plans/assumptions of the current Government) through to the end of the decade and decisions that have an ongoing impact must be taken in this context.
- 5.11 Our current financial strategy can be summarised adopting a more commercial approach and supporting growth in the borough in order to attract additional business rates, council tax and new homes bonus in order to stimulate the local economy, provide jobs for local people and funding to support existing council services in order to minimise as far as possible the cuts that we must make to front line services.

6.0 COUNCIL TAX FREEZE GRANTS

- 6.1 Telford & Wrekin Council rejected the Council Tax freeze grants for the last two years on the basis that they were one-off and therefore did not help the Council's long term financial sustainability which is essential in the context of the current climate of severe financial constraint. This

decision was informed following extensive consultation where the clear view from the community who responded to the consultation was for the Council to pursue a level of ongoing Council Tax increase to help protect local services. However, the 2013/14 freeze grant has now been “base-lined” by the Government i.e. it is not now being treated as one off – had this, change been known in advance some councils may have decided to accept rather than to reject the grant. Clearly it is very unhelpful that the Government have changed the goalposts after the date by which councils had to make their decisions on whether to accept the 2013/14 council tax freeze grant offer. The Council has expressed its disappointment at the lateness of this announcement directly to DCLG as part of the recent technical consultation on future changes to grant methodology. It is conceivable that the Government may have revised its position following feedback from councils such as Telford & Wrekin on the unsustainability of temporary grants.

- 6.2 The Government have announced council tax freeze grants equal to 1% of council tax base (prior to reductions to the tax base for local council tax support) for 2014/15 and 2015/16. However, they have not yet announced how long these grants will be paid for or indicated when such an announcement will be made.
- 6.3 However, given that the 2013/14 council tax freeze has been base-lined, there is a strong possibility that the proposed freeze grants for 2014/15 and 2015/16 may also be baselined. If the Government did not baseline the freeze grant at authority level then that money would go back into the mainstream settlement and authorities that had put up Council Tax would get a share of it which would be counter to Government policy.
- 6.4 If future council tax freeze grants are ongoing rather than short-term, acceptance of the freeze grant which, as it is based on the pre local council tax support council tax base rather than the post council tax support scheme tax base, is effectively worth 1.2% to this Council rather than 1%, becomes much more attractive. Current budget assumptions based on decisions taken at Council in March this year are to increase council tax by 1.9% but Members views are sought as to whether, in the light of the changed treatment of the 2013/14 council tax freeze grant and the cost of living pressures and impacts of welfare reforms for local people, we should, in line with our Co-operative council principles, re-consult the community on whether we should now accept the Council tax freeze grant offers for 2014/15 and 2015/16.
- 6.5 The Council’s financial strategy summarised in section 5.11 above, which is based on the financial benefits for the Council, as well as for local people, from pursuing economic growth is also expected to bring significant financial benefits in terms of additional Council Tax, New Homes Bonus and additional retained Business Rates income. These expected increases to the Councils funding make acceptance of freeze grant offers more possible for the Council than if we were not pursuing

this strategy as these financial benefits will reduce the amount of cuts that we would otherwise have to make.

- 6.6 If, after consultation, the Council accepts the proposed Council Tax Freeze grants, the budget gap in 2014/15 would increase by around £0.35m and if also accepted in 2015/16 by £0.7m compared to the assumed council tax increases of 1.9% for both years approved at Council in March 2013. If, after consultation, the freeze grants were to be accepted but were not baselined by the Government, the Council would face an ongoing shortfall of around £1.9m compared to implementing council tax increases of 1.9%.

7.0 BUDGET GAP PROJECTIONS:-

- 7.1 When considering the potential budget gap that will be faced by the Council in 2014/15 and 2015/16 a large number of assumptions need to be made, many of which are subject to change. Therefore the figures below should be regarded as best estimates based on currently available information but they will inevitably change as further information becomes available. Some of the key assumptions are included at Appendix 1.

- 7.2 At Council in March this year, savings of £6.8m to be delivered in later years were approved as well as the savings needed in the current year. After taking these additional savings in to account, the projected budget shortfalls are:-

	£m
2014/15	5.9
2015/16	16.9 (Including £5.9m for 2014/15)

In total, therefore the Council will need to have delivered ongoing savings or additional income of around £75m by the end of 2015/16, made up of £51m delivered from 2009/10 to 2013/14 and £23.7m to be delivered over the next two years. To put this in context, these cuts will be equivalent to more than £1,000 for every home in the Borough. Under current Government longer term spending forecasts it is likely that the Council would need to identify further savings of £10m pa through until the end of the decade.

8.0 TIMETABLE

- 8.1 The proposed timetable for developing the overall Service & Financial Planning Strategy for 2014/15 – 2015/16 is set out below:-

<ul style="list-style-type: none"> • Further savings proposals to be developed by Senior Managers working with Cabinet members 	October/November
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<ul style="list-style-type: none"> Community Engagement Team to review proposals for impact assessment and engagement requirements 	December
<ul style="list-style-type: none"> Provisional Settlement received 	Expected mid – late December
<ul style="list-style-type: none"> Overall Service & Financial Planning Strategy to Cabinet 	9 th January 2014
<ul style="list-style-type: none"> Engagement activities 	Start from 9 th January 2014
<ul style="list-style-type: none"> Consultation closes 	10 Feb
<ul style="list-style-type: none"> Cabinet – Agree final recommendations to Council 	20 Feb 14
<ul style="list-style-type: none"> Council – Set council tax, revenue and capital budgets and treasury management strategy for 2014/15. 	27 Feb 14

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KEY ASSUMPTIONS USED IN PROJECTING THE BUDGET GAP.

A number of assumptions have been made in arriving at the projected gap including:-

- The 2014/15 provisional settlement data is not subject to major change when it is received;
- That contributions to the pension fund will not increase by more than has been assumed in the budget model for the next 3 years when the results of the triennial valuation of the pension fund are announced by Shropshire Council;
- That all existing planned savings will be delivered in full and on time including in the key pressure areas of Safeguarding and Care and Support. (Where any change to agreed savings schedules is necessary, it is assumed that alternative in-year proposals are identified by Assistant Directors to replace any proposals that have to be re-phased or deleted) ;
- Any service pressures or developments are funded from further savings proposals within the relevant service area;
- The council accepts the council tax freeze grant offers in both 2014/15 and 2015/16;
- No additional ongoing funding is necessary for implementation of a final equal pay and terms and conditions settlement;
- Other than contractually committed inflation and pay awards of 1% from 2014/15 all inflationary pressures are managed within cash limited service budgets;
- New capital expenditure commitments are strictly controlled and capital receipt targets are achieved;
- Government proposals for top-slicing £400m of new Homes Bonus funding does not result in a reduction of revenue funding received by the Council (if agreement can be reached with LEP members to return revenue funding to contributing Councils);
- The localisation of business rates represents a very significant transfer of funding risk from the Government to Councils. There are significant uncertainties including the potential cost of appeals which can be backdated for many years, the cost of charitable and empty property reliefs and deletions/mergers of properties on the valuation list. In the absence of other information on appeals, our assumptions are therefore based on information provided by the Government at the commencement of the new system;
- Continuing healthcare pressures are funded from within Care & Support resources – including funding from the CCG and other NHS resources (including “Lansley” funding or the additional funding announced in the Spending Round – although conditions attached to this are not yet known.)