

MEDIUM TERM FINANCIAL STRATEGY 2015 - 2020**1 Background and Scope**

- 1.1 In common with all local authorities, Swindon Borough Council is facing unprecedented pressures on its resources due to a combination of increasing demands for services and cumulative reductions in Government funding as part of the Coalition Government's response to the national funding deficit. The 2014 Autumn Statement and its accompanying forward projections confirmed that this position is set to remain in place at least until 2019/20.
- 1.2 The Council has, to date, been successful in responding to the financial challenges it has faced. Expenditure each year has been contained within the approved budget, while spending reductions that have had to be implemented have largely protected key front line services. However, against a backdrop of savings totalling £100m over the past 7 years (including those for 2015-16), it is becoming increasingly difficult to identify options to ensure a sustainable spending position over the medium-term that reflects the level of resources that will be available.
- 1.3 Over 80% of recent years' savings have been achieved through reducing the cost of services with no discernible impact on service users. A particular focus has been on reducing back office and management costs. Within this, the number of staff employed in corporate support services was 44% lower in 2014 than in 2006. While increasing the efficiency of current services will need to remain an element of any future financial strategy, there is now significantly less scope to pursue this as a major element. For this reason, the Council has changed its focus to resourcing a smaller number of more strategic programmes, aimed at taking a more transformational approach to changing service delivery.
- 1.4 The purpose of this Medium Term Financial Strategy (MTFS) is to set out the key financial management principles, budget assumptions, corporate and service issues and an outline strategy to address the funding deficit. It is used as the framework for the detailed budget setting process to ensure that resources are managed effectively in order to deliver the aspirations of the Council and its agreed priorities as set out in the Corporate Strategy;
 - Work with residents to create well cared for neighbourhoods
 - Right skills, right jobs, in the right places
 - Together, find new ways to reduce vulnerability and improve health for all
 - Work with people and families to help them fulfil their potential
 - Consistently make the best use of all available resources and focus them on what matters most
- 1.5 The MTFS and the annual budget process have close links to the corporate planning process that ensures Business Plan activities for all services relate to the Corporate Strategy priorities and reflect available budgets. Arrangements are being put in place to ensure that service planning, financial planning and performance monitoring arrangements are fully integrated and informing future workforce development plans, to ensure that the Council is considering the use of all resources (not just financial), in delivering its priorities.

- 1.6 The MTFS focuses primarily on the General Fund Revenue Account, which records the majority of the expenditure and income relating to the day to day running costs of the Council and is the element of the Council's budget that is partly funded by Council Tax. Reference is made to investment in assets, which is classed as capital expenditure, since any additional borrowing required to fund such expenditure needs to be financed from the General Fund Revenue Account.
- 1.7 The Housing Revenue Account, which records income and expenditure relating to tenants in the Council's houses, is ring-fenced from the rest of the Council's finances and has its own financial strategy, which is part of a 30 year business plan.

2 Forecast Resources

- 2.1 The main income sources for the General Fund Revenue Account are Government Grant (Formula Grant and specific grants) and Council Tax. Related to the former, local authorities have the opportunity to benefit from increases in Business Rates income in future years, as explained below.

Government Grant

- 2.2 New funding arrangements for local authorities were introduced by the Coalition Government from April 2013. From this point onwards, Formula Grant levels (the general grant support provided to local authorities) will no longer be changed each year to reflect movements in demographic and socio-economic profiles of individual areas. Instead, the proportion of overall general grant provided to individual authorities is expected to remain constant until around 2020, with any changes to individual Formula Grant allocations simply reflecting the change to the national level of grant determined by the Government. This represents a particular challenge for growing areas such as Swindon, as population growth will no longer be taken into account in the resources received.
- 2.3 The new system does, however, include an element of 'Localisation of Business Rates'. Local authorities are able to retain a share of the net increase in income that they receive in Business Rates, to provide funding to meet additional costs of service provision. Retained Business Rates income for individual areas is subject either to a tariff or a levy on any Business Rate growth that may be achieved (both annually increased by inflation). The level of tariffs and levies is unique to each local authority. As a tariff authority, Swindon Borough Council receives £0.28p for every £1 increase in Business Rates receivable.
- 2.4 While the new system removes some of the unpredictability in previous grant funding mechanisms, it introduces a number of new risks. The level of change in the overall rateable value is proving impossible for local authorities to predict with any degree of accuracy, due to the scale of changes in exemptions and reliefs claimed by landlords due to different property usage and, most particularly, the number and scale of successful Business Rate appeals. It is expected that the level of volatility will reduce in future years as the historic backlog of appeals is reduced by the Valuation Office Agency.
- 2.5 A further challenge is changes made by the Government each year to specific grants for particular purposes, outside of the main Formula Grant. Typically a number of such grants are said to be "rolled into" the Formula Grant each year,

meaning that like for like comparisons are very difficult to determine. Sometimes the overall level of Formula Grant is increased to reflect the funding associated with the former specific grant. Often it is not, meaning that the change is merely presentational. Since 2011-12, Swindon Borough Council has seen £29m of its specific grants rolled into the Formula Grant, although the latter has only increased by £3m, i.e. the net reduction in specific grants has been £26m.

- 2.6 In order to incentivise house building, the Coalition Government introduced the New Homes Bonus, a grant which matches the level of Council Tax income payable for each new property for a period of 6 years. It also includes a reward for bringing empty homes back into use. As a growth area, Swindon has benefited more than many areas from this grant. It is not universally supported, as it is felt by many to unfairly reward areas which typically have thriving economies at the expense of others which have less opportunity to benefit from growth. Hence, although it has brought welcome additional resources to Swindon, the Council has been more cautious in previous years than some in using this grant to support its base revenue expenditure, although plans for 2015-16 include using £5m of the £6.1m for this purpose.

Council Tax

- 2.7 The level of Council Tax is a matter to be determined by individual local authorities. Successive Governments have attempted to restrict increases in Council Tax levels by a variety of means, including capping individual local authority budgets and offering grants to incentivise Council Tax freezes. Through such measures, changes in Council Tax levels across the country have become much more uniform in recent years. Most authorities, including Swindon Borough Council, have frozen their tax levels since 2010, although an increasing number have raised tax within the 2% threshold permitted in the past two budget years.
- 2.8 As a result of continuing housing development in the Borough, there is an expectation that the Council Tax yield will grow each year, regardless of the decision on the Council Tax level. For planning purposes, an average increase of 800 Band D equivalent properties each year is assumed.
- 2.9 Swindon Borough Council has not yet formally determined the level of its Council Tax for 2015-16 and subsequent years. For the purposes of this MTFS, a 1% increase has been assumed for 2015-16, which reflects the equivalent increase through accepting the freeze grant in recent years. An alternative increase of 1.94% would generate an additional £643k of annual income in 2015-16.
- 2.10 From 2016-17 onwards, in line with many Councils and recognising the increasing difficulty of balancing the annual Budget, an increase just below the 2% current referendum threshold has been modelled. If Council Tax levels remain frozen, the cumulative funding gap assuming a tax base increase of 800 per annum increases by an estimated £2.95m over the period to 2019/20. If growth reverts to 2011-12 levels (1,200 band D equivalent households per annum), this rises to £3.1m.

3 Forecast Expenditure

- 3.1 This section builds on the Council's current base expenditure level and sets out the key corporate and service pressures that will need to be addressed over the MTFS period as a result of significant demographic, legislative and economic issues.

Inflationary Pressures

- 3.2 The level of inflation has recently fallen below the Government's target rate of 2%. As a result, the Council has been able to reduce its provision for inflation relating to contracts for goods and services in 2015-16 below that in previous years. With inflation seemingly set to remain at relatively low levels for the foreseeable future, predicted inflationary cost pressures are now lower than they have been for many years, but are expected to rise slightly throughout the MTFS period.
- 3.3 The position on pay inflation is slightly different. After a number of years of zero or minimal salary cost rises, an increase of 2.2% was agreed for most local authority staff from 1 January 2015, equivalent to just over 1% per year over the 2014 – 2016 period it covers. In addition, Swindon Borough Council has allowed a figure of £0.7m in its proposed 2015-16 budget for the cost of incremental progression, equivalent to a further 1% salary increase overall. Looking beyond 2015-16, an allowance of 2% has been modelled to cover pay inflation and incremental progression.

Demographic Pressures

- 3.4 Between the 2001 and 2011 censuses, Swindon's population grew to 209,000, this 16% increase being the highest in the South West. It is estimated that our population could increase to 240,000 persons by 2021 and 265,400 by 2031, equivalent to growth of approximately 14% from 2011 to 2021, and a further 10% from 2021 to 2031. This increase is significantly higher than that predicted for England overall.
- 3.5 The age structure of the population is also projected to change, with significantly higher growth in the older age groups than in the younger groups. This will result in an increase in the ratio of children and older people to working age people so that by 2031 for every one person under the age of 16 or aged 65+ there will be 1.5 persons of working age instead of 2 persons of working age in 2011.
- 3.6 The 2 most significant impacts on the Council's expenditure levels associated with demographic change are as follows;
- a) The underlying costs of providing Adult Social Care services are rising at a rate of between £3m - £5m per year. Actions have been identified that have partly mitigated these increases in recent years.
 - b) The increasing school age population has necessitated Swindon expanding existing schools and building new schools at a much faster rate than most local authorities. To date the impact has been at Primary level, but this is naturally translating into requirements for further Secondary places over the next few years. With Government grant providing only a

small proportion of the funding for these facilities, the associated additional borrowing requirement is creating an annual pressure on the revenue debt charges budget.

General Pressures

- 3.7 The Council continues to respond to the ever changing national economic and policy landscape. New legislation, such as the Care Act 2014, regularly means changes to the services the Council is obliged to deliver, often with insufficient resources being provided to meet the associated additional costs. A current example is the change to Local Welfare provision, where the Council needs to consider whether to continue funding emergency support to individuals as the funding from the Department for Work and Pensions is set to be withdrawn. Although it is impossible to predict the specific future legislative changes that will impact on local authorities, past experience gives a strong indication that additional costs will regularly arise from such changes that needs to be allowed for.
- 3.8 The pension fund for Swindon Borough Council employees is administered by Wiltshire Council. Every three years an Actuary is required to revalue the fund and adjust the contributions required from councils and other employers in the scheme to ensure the liabilities of the fund will be fully funded over the long-term. The reductions in workforce, the increasing age profile of staff and the relatively low returns from investments in recent years mean that, based on historic actuarial advice the Council's employer contributions could be increasing by several million pounds each year.
- 3.9 However, in an attempt to avoid large "knee-jerk" increases, on 13th May 2010, the Wiltshire Pension Fund Committee agreed to put in place a stabilisation policy which limits increases or decreases in employer contributions to +1 or -1% per annum from 1 April 2014 onwards. The objective was to stabilise employer contributions rates over the next 24 years by underpaying in unfavourable market conditions and overpaying in more favourable times. A 1% increase amounts to just under £1m for Swindon and, as a result, the annual increases for the MTFS period have been modelled at £1m per annum and this level of increase is expected to continue for the foreseeable future.
- 3.10 Swindon is growing, with large new housing developments being constructed in several parts of the Borough. This is accompanied by additional costs associated with maintaining new roads and open spaces and expanding universal services such as waste and recycling collections. The Council clearly benefits from additional Council Tax from the new properties (and New Homes Bonus, for a period of time), but no additional Government funding is provided to help meet such additional costs.
- 3.11 In addition to the need for new schools highlighted in paragraph 3.6, the Council also needs to fund capital investment associated with its other assets, notably highways and footways and operational property, plus equipment associated with enabling individuals to continue to live independently. Government grant is received for highways maintenance through the Local Transport Plan, which the Council has chosen to supplement in recent years through additional borrowing. Most other capital expenditure is unsupported by external resources and is reliant on Council borrowing or other funds held such as s106 deposits.

3.12 Table 1 below sets out the Council's current net budget, the predicted funding reductions and expenditure requirements to show the funding gap expected for the next five years.

Table 1 – MTFS Funding Position

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
15% Reduction in Formula Grant	8,600	7,100	5,700	4,300
Other Grant Reductions	1,400	2,400	3,300	3,400
Predicted Grant Funding Reduction	10,000	9,500	9,000	7,700
Inflation	4,000	4,000	4,500	4,800
Social Care Packages	2,500	2,500	2,500	2,500
Pension and Debt Charges	3,000	2,000	2,000	2,000
Pay Incremental Progression	700	700	700	700
Other Cost Pressures	1,500	1,500	1,500	1,500
Reduction in Collection Fund Surplus	800	300	300	300
Less Council Tax Base Growth	-1,000	-1,000	-1,000	-1,000
Less Council Tax Increase (1.94%)	-1,500	-1,500	-1,500	-1,500
Predicted Funding Gap	20,000	18,000	18,000	17,000
Council Tax Income	79,985	82,489	85,061	87,701
Formula Grant ##	48,748	41,648	35,948	31,648
Predicted Net Budget	128,733	124,137	121,009	119,349

The Formula Grant predictions are likely to vary from the above figures due to the likelihood of specific grants being discontinued and some elements being added to it.

4 One-off Resources

- 4.1 The Local Government Act 2003 states that the level of reserves is a matter for each local authority to determine and they must set a level of reserves in consideration of the risks and uncertainties that might force them to spend more on their services than they planned for at the beginning of each financial year. The Section 151 Officer has a statutory responsibility as well as a duty under the Council's Constitution to advise members on what he/she feels is reasonable as part of the annual budget setting process. This is particularly important within the context of the financial challenges currently facing councils and the need to consider financial sustainability in the years to come.
- 4.2 Sections 26 and 27 of the Act give the Secretary of State power to determine minimum reserves for local authorities in England by regulation. This has not been done in recent years but the guideline issued refers to general reserves being at least 5% of the authority's net revenue budget. It should be noted that the current financial context is considerably more challenging than when the guidance was developed, indicating this figure probably should be higher. Swindon Borough Council's 2014-15 Net Budget is £143m which would suggest a level of General Reserves of £8.6m to cover unforeseen costs. Through sound financial management over a number of years, the s151 officer has concluded that a minimum level of £5m is manageable for Swindon, which has been accepted by External Audit, with the current balance held being £6m.
- 4.3 In addition to General Reserves, authorities are required to keep specific reserves to cover known risks and expected costs falling outside of their budgeted expenditure. For Swindon, the level of reserves is higher than many similar authorities at £67m, with £15m of these relating to the Housing Revenue Account and Dedicated Schools Grant and the balance of £52m supporting General Fund activities.
- 4.4 The Council has deliberately pursued a strategy over recent years of seeking to maximise such one-off resources, recognising the challenge of responding to continuing reductions in funding alongside increasing demand for services. This has been achieved predominantly through early delivery of savings identified for future year budgets, that have led to underspends by the end of each financial year. This both gives the Council resilience and cover against any need to take knee-jerk reactions when unforeseen costs arise and has also allowed significant pump priming of transformation activities that lead to lower on-going costs.
- 4.5 Table 2 below sets out uses of one-off reserves to support the last 2 years' revenue budgets, which includes some of the £52m currently held;

Table 2 – Recent Use of One-Off Resources

	£m		On-Going Saving
Hills Landfill Contract Buy-Out	1.6	Agreed at Cabinet October 2013 to enable the Council to benefit from lower costs through the SCS Waste Plant	£630k pa + future surplus on plant
Leisure/Golf Transfer	3.2	Agreed at Cabinet October 2013 to fund the project and implementation costs to enable the transfer of assets to GLL and Twigmarket	£1m pa on-going plus backlog maintenance
Green Waste implementation	0.5	Agreed at Cabinet December 2013 as part of the introduction of charging for the new service	£0.9m pa on-going
Capita Severance and IT Reshaping	5.0	Agreed at June 2014 Cabinet as part of insourcing some services	On-going £3m pa
Severance Costs above the £1m pa base budget	0.6	Agreed as part of annual Budget Reports	Part of staffing saving
Cash flowing Business Rates Appeals	2.0	Agreed at December Cabinet to allow SBC to benefit from future growth	On-going £1m pa + growth in 2016-17
PFI Top-Up	2.3	Underspend on debt charges budget in 2012-13 and 2013-14 redirected into the PFI reserve to avoid a cost pressure on the revenue account	Cost avoidance of £1m pa x 3.5 years
	15.2		

4.6 Specific reserves fall into two categories, although both are earmarked for specific purposes:-

- Corporate - £37m
- Service Specific - £30m (£15m for General Fund services)

Corporate

4.7 £11m relates to ring-fenced sums to cash flow the major Wichelstowe and PFI projects. These reserves fluctuate depending on the yearly cash flows of each project and will be fully depleted by the end of each project's life (well before, in the case of Wichelstowe). These sums are not available to be used to supplement other general expenditure.

4.8 £5m relates to infrastructure and regeneration funding, which has been sourced mainly from the Planning Delivery Grant and New Homes Bonus issued by the Government. Much of this funding is currently unallocated and could potentially be redirected on to other types of local authority expenditure. However, growing the Swindon economy is a key priority for the Council which is likely to require some up

front public sector investment, which would be difficult to identify without this funding being available.

- 4.9 £7m of cash flowing reserves have been established to fund programmes of work to deliver future years' budgets. This sum is not yet earmarked for specific activities, although the value should be considered within the context of the £15m one-off spend incurred to deliver the last 2 Budget rounds.
- 4.10 £3m for severance costs, against average spend of £1.2m pa over the last 3 years. Note that the base budget provision for severance is proposed to be removed in 2015-16.
- 4.11 £3m has been set aside to facilitate the leisure and golf transfer to GLL and Twigmarket.
- 4.12 The remainder is available to support a range of potential or committed costs, including £2m to cover the anticipated cost of business rates appeals in order that additional income from business rates growth can be used to support the 2015-16 budget and £1.5m for the Council's contribution to the Superfast Broadband Extension programme.

Service Specific

- 4.13 £3.3m relates to the Insurance Fund, which is set at an industry standard level of covering twice the aggregate excess liability in any financial year. It was increased in 2013 to reflect the increased liabilities associated with bringing SCS back in-house and higher levels of self-funding, which was offset by a significant reduction in premiums.
- 4.14 £2m is to reshape the ICT Infrastructure, as approved by Cabinet in June 2014.
- 4.15 £0.8m is being spent to fund service improvements including pothole repairs, as approved by Cabinet in determining the 2014-15 budget.
- 4.16 £0.6m is to cover the Council's payments under the Carbon Reduction Commitment scheme.
- 4.17 The remainder consists of lower sums earmarked for specific service initiatives, many of which are due to be spent in the current financial year. All of these sums will be reviewed by the end of the year to simplify the current arrangements and determine whether any can be released to supplement corporate reserves.

5 Responding Strategies

Core Principles

5.1 The Council has a number of agreed principles as a basis for financial management and budget planning, which are set out in the Financial Procedure Rules within the Council's Constitution. The key points are summarised below:

- Budgets and resources should be aligned to key priorities as set out in the Corporate Strategy;
- Detailed budget estimates reflecting annual service plans should be developed and future liabilities anticipated, with any proposals that require additional financial commitments being considered by the Cabinet prior to being introduced;
- Where overspends or new pressures occur in individual budgets, appropriate corrective action should be identified and implemented by the relevant senior officer to ensure that expenditure remains, wherever possible, within the existing approved cash limit;
- Revenue and capital budget planning should be fully integrated and no capital scheme should progress unless all required finance and other approvals have been obtained and the scheme is formally included in the capital programme.

Budget Planning Approaches

5.2 The Council has adopted the Stronger Together vision that sets out a new way of working for and with local people. In this, the strands of commissioning and joined up service delivery are both closely linked to a more localised approach to engagement and co-creation with residents, voluntary sector providers and other partners. No single approach is, however, capable of ensuring that the Council maintains a sustainable financial position over the medium term. A number of different strands will therefore be pursued in parallel, as follows;

- a) Cost reduction – a continuing drive to reduce all costs associated with the Council through systematically reviewing the justification and cost effectiveness of all current budgets and focusing procurement resources on large and medium sized contracts, to identify opportunities for cost reduction to obtain the best price. This strand is expected to diminish in the years ahead, given the significant focus on efficiency savings over the past 5 – 10 years;
- b) Asset rationalisation – ensure that premises overhead costs are kept to a minimum by optimising the number of different buildings used by the Council and its partners across the Borough, realising the potential for joint use as much as possible and disposing of assets not needed for operational or investment purposes;
- c) Alternative service delivery models – consideration of whether other current organisations, such as Parish Councils, voluntary organisations, community groups, private companies or entirely new organisations can take on delivery of current Council services. A localised approach to service delivery was

acknowledged as a key strand in the Stronger Together objective of stemming the increasing demand on public services, which is being manifested in the changing role of Localities to focus on the key pressure area of social care;

- d) Strategic commissioning – a focus on what outcomes are most desirable for Swindon residents and exploration without preconceptions of the role that the Council can best play in order to secure these, with or without direct involvement. This approach is expected to provide the evidence base to direct the Council's resources towards those activities which have the greatest impact on outcomes and, consequently, to justify withdrawing from those that have the least impact;
- e) New income generation – adopting commercial practices to better understand both our current and potential future customers and the supply markets that they and the Council on their behalf use to fulfil service needs, in order to identify opportunities to maximise current and realise new income streams. Evidence nationally is that local authority income from fees and charges has fallen since 2010, hence the particular focus of this workstream is expected to be on maximising the potential of the Council's new opportunity to benefit from business rate growth;
- f) Develop its borrowing and Treasury management strategy to ensure the optimum approach to strategic corporate financing, reducing borrowing costs where possible and identifying opportunities to improve returns on the Council's cash resources, recognising the prime aim needs to be security of sums invested.

Optimising Use of Resources

5.3 The following general principles should be applied in determining the most appropriate use of financial resources;

- a) The use of specific grant funding should be managed to ensure that it does not lead to on-going revenue budget pressures if / when the grant is subsequently withdrawn;
- b) Service specific reserves should be used for the specific one-off purposes for which they have been created, which should align with the agreed corporate priorities;
- c) Corporate reserves should be used to pump prime programmes or activities that will help ensure a more sustainable financial position is reached over the medium-term rather than as a primary method of covering on-going pressures in the budget;
- d) Further borrowing for capital expenditure purposes should be focussed on statutory or essential items for which no or insufficient grant or other funding is available or to support schemes that will secure a satisfactory financial return for the Council over time;

Engagement and Lobbying

- 5.4 There are increasing examples of local authorities taking very different approaches to engage with local residents around the scale of their challenges and the choices they face. This was a key part of the Stronger Together intent and is an area which the Council will develop further as work progresses towards highlighting different options for its future year budgets. Creating a dialogue about alternative ways to reshape, deliver and access services will best ensure that delivery of the Council's priorities is achieved in ways that best secure the outcomes that local people most value as individuals and communities.
- 5.5 With the local government funding system being effectively frozen for the foreseeable future, the Council will focus its lobbying efforts on maximising the funding and partnering opportunities associated with being a high growth area, building on the success of our recent Local Growth Fund allocation. We will seek opportunities to work, both formally and informally, with similar authorities who face the same challenge. This will include seeking recognition of the additional burden high growth areas face around education provision in particular as well as more generally as a consequence of a rapidly ageing population. Looking specifically at Swindon, we will see government support to help remove the limitation on wider economic growth resulting from its relatively underperforming town centre.