

Medium Term Financial Strategy Update and Efficiency Statement 2016 - 2020

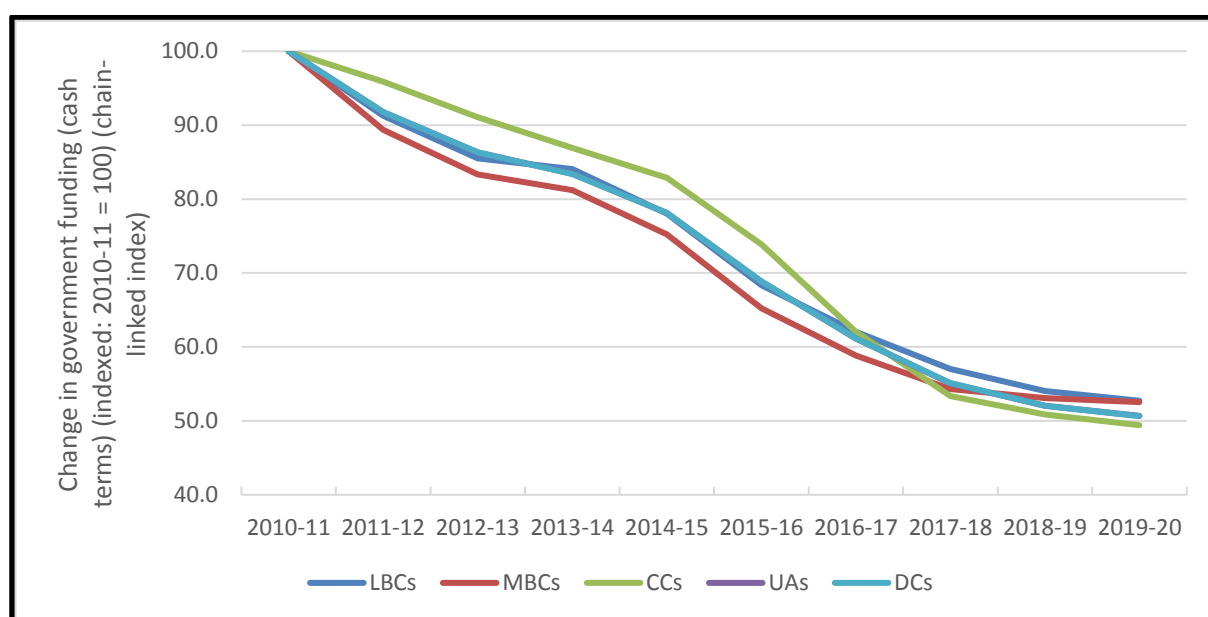
1 Background and Scope

- 1.1 The Council's Medium Term Financial Strategy agreed by Cabinet in February 2015 set out the financial context for the Council up to 2019-20. This document updates that strategy for changes announced in the 2015 Autumn statement and also sets out the Council's updated financial position.
- 1.2 Alongside increasing demands for services, councils nationally have seen cumulative reductions in Government funding since 2010-11 as part of the Government's response to the national funding deficit. The 2015 Autumn Statement and its accompanying forward projections confirmed that this position is set to remain in place throughout the current parliamentary period at least until 2019-20 but also announced some new changes to the future funding of councils.
- 1.3 Linked to a move to four-year funding settlements from Central Government, the Council is now required to submit an efficiency statement to the Secretary of State demonstrating its high-level funding position and responding strategies to ensure medium-term financial sustainability. This is included within this document for endorsement by Members before submission to Central Government.

2 Forecast Resources

- 2.1 Annual reductions in government funding of councils were 6.3% in cash terms during the period 2010-11 to 2015-16 and are predicted to reduce by 6.6% during the period 2016-17 to 2019-20. Real terms reductions on Revenue Support Grant (RSG) are much more significant with a proportion of overall government funding being targeted for specific purposes through specific grants and growth funding outside of the formula grant available to support councils' on-going budgets. However, it is clear from the Autumn statement, that the challenging financial context seen in the last five years is set to continue until at least the end of the parliamentary period as set out in Chart 1 below.

Chart 1 – Reduction in Government Funding 2010 to 2020



- 2.2 A key change in national policy announced in the Autumn statement relates to overall council spending power which is predicted to continue to reduce up to 2017-18 but then returns to growth in cash terms. This change is driven by the Government now assuming councils will replace government funding with Council Tax income.
- 2.3 Set against a backdrop of five years of freezing Council Tax levels incentivised by national policies, the Government's assumed spending power for councils now assumes on-going rises in annual Council Tax levels. This is demonstrated in Charts 2 and 3 below.

Chart 2 – Council Spending Power 2010 to 2020

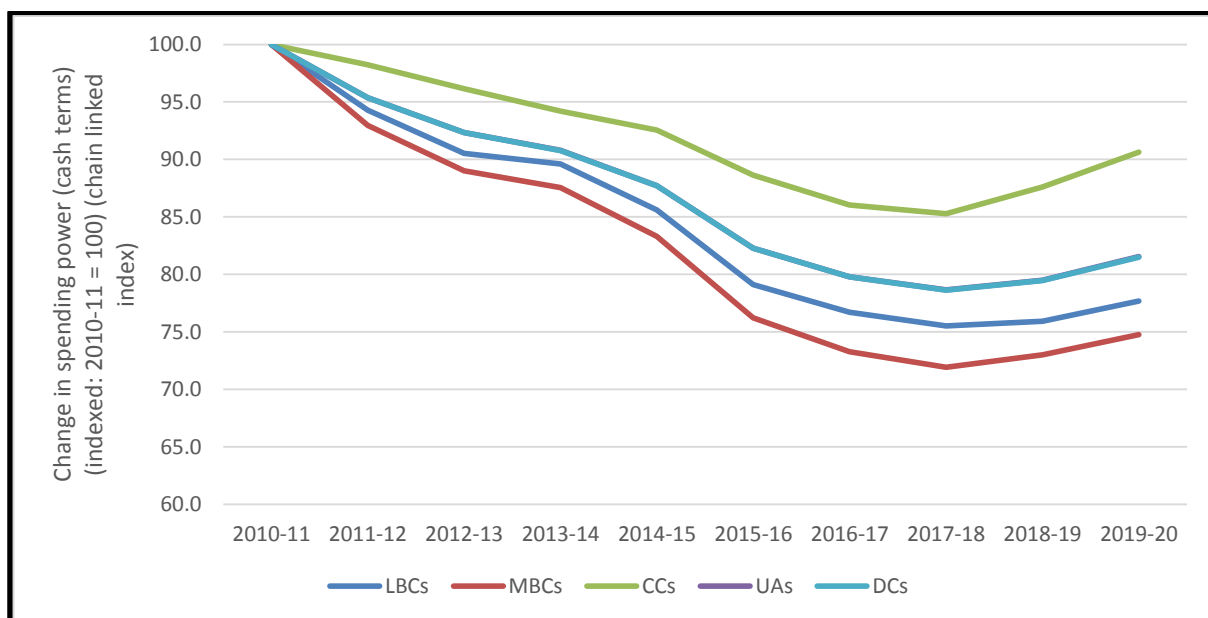
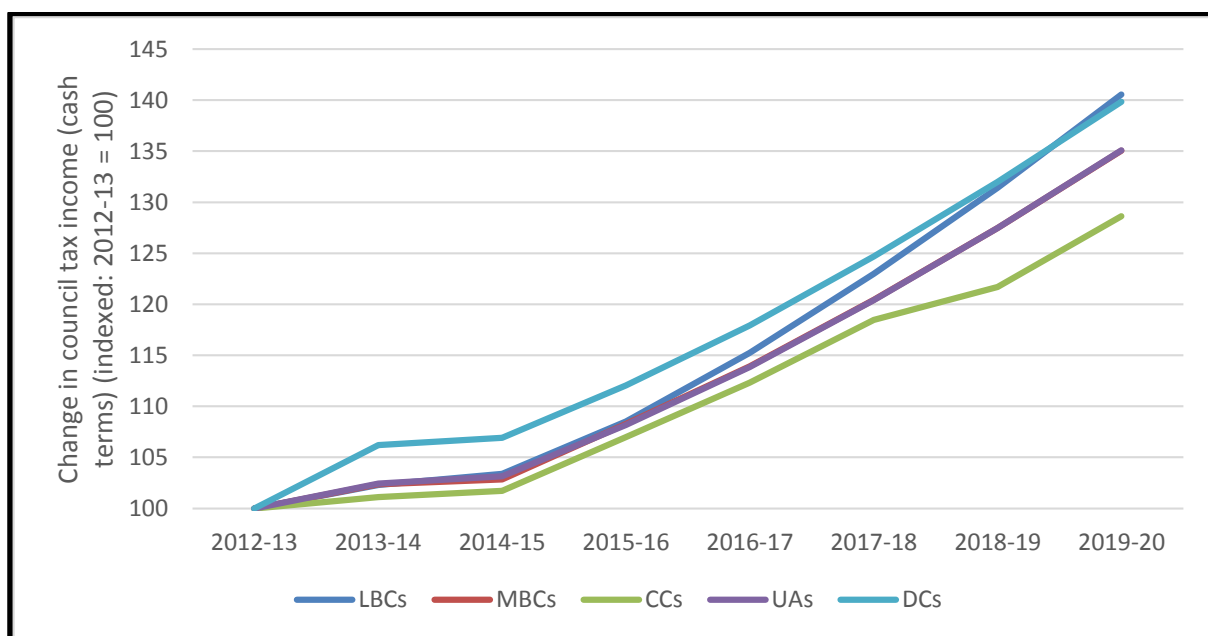


Chart 3 – Change in Council Tax Levels assumed by Government



- 2.4 The key headlines from the Autumn Statement and Provisional Local Government Finance settlement focus on the following key areas:-
- Business Rates Retention
 - New Homes Bonus (NHB)
 - Council Tax Increases
 - Better Care Fund (BCF)
 - Four-Year Settlement and Efficiency Statement

- 2.5 **Business Rates Retention** - The Local Government Finance Settlement that followed the 2015 Autumn Statement set out greater flexibility for councils and confirmation of the Government's intention to move to full retention of business rates by 2020. This will result in all business rates collected nationally being retained to fund council services but mechanisms will remain in place to ensure funding is distributed fairly across geographical areas to recognise need. The existing Business Rates Retention Scheme already allows councils to benefit from a proportion of local growth.
- 2.6 **New Homes Bonus** - Alongside this, the Government also announced a move to shift New Homes Bonus towards more targeted support towards adult social care costs. This will effectively divert funding from districts to county, metropolitan and unitary councils depending on how much new funding for adult social care services is allocated. The specific NHB changes focus around five key areas as follows:-
- Reducing NHB payments from 6 years to 4 years which will reduce the level of funding paid to Swindon in years three and four of the four-year settlement.
 - Lose NHB payments if there is no Local Plan in place which will not impact Swindon
 - 50% or 100% reduction in NHB payments for homes allowed on appeal which we are unsure at this stage how this will impact Swindon from one year to the next
 - Introducing a baseline for NHB payments & only pay above that which, at this stage, it is unclear how this will impact Swindon
 - Changing to lower based Council Tax band which would impact Swindon as we have more houses in bands below Band D than above.
- 2.7 **Council Tax Increases** – Moving away from the previous Government policy around Council Tax freezes, the latest announcement assumes that Councils will increase Council Tax levels as part of its normal calculation of the “Basic Level of Council Tax” with an on-going 2% threshold beyond which a referendum is necessary, plus up to a further 2% to contribute towards adult social care costs.
- 2.8 **Better Care Fund** – Linked to the proposed diversion of NHB referred to above, the announcement included a proposal to pay new BCF directly to councils from 2018-19. The high-level estimates included within the provisional settlement suggest that Swindon may receive more BCF than it will lose in NHB and this is in alignment with the rhetoric to shift resources towards councils responsible for adult social care services.
- 2.9 **Four-Year Settlement and Efficiency Statement** – Councils have been pushing for greater certainty around funding levels for many years and the Government has responded to this with a four-year settlement that sets out provisional funding allocations for RSG, NHB and BCF and also makes assumptions around growth in households and businesses and future Council Tax and Business rates income. Alongside giving councils greater certainty over their funding levels and the ability to raise greater local income, the Government wishes to encourage councils to continue their work to explore new service models and manage down future cost pressures rather than just relying on new income streams. As a result, there is a requirement for councils wishing to accept the four-year settlement to produce an Efficiency Statement to be shared with the Secretary of State and this is included at the end of this appendix for agreement by Members.
- 2.10 The impact of these changes in overall terms for Swindon have little impact on the level of Government funding predicted to be received from central government but does raise the possibility of raising new sources of income from Council Tax. In overall terms, the Council still expects to receive Government funding reductions of £10m in 2016-17, £9.5m in 2017-18, £9m in 2018-19 and £7.7m in 2019-20. This equates to £35.2m compared to previous forecasts of £36.4m.

3 Forecast Expenditure

- 3.1 Previous forecasts of expenditure pressures have remained broadly unchanged since the February 2015 plan but with a slight increase in likely social care pressures and slightly lower other cost pressures.
- 3.2 In overall terms, alongside the government funding reduction of £35.2m over the next four years, cost pressures add a further £50m to the Council's funding gap before Council Tax increases and Better Care funding.

4 One-off Resources

- 4.1 The on-going strategy adopted by Cabinet some years ago to deliberately implement future years' savings as early as possible to create one-off funding capacity continues. It is estimated that by the end of 2015-16, the Council will hold around £19m of one-off reserves available to pump-prime and cashflow future year's budget savings, of which £12m is currently uncommitted although a proportion of this will be required to deliver savings assumed in its three-year plan.

5 Responding Strategies

- 5.1 The 2016 – 2020 Direction of Travel, Financial Context and Budget Proposals 2016-17 report to Cabinet on 9th December 2015 set out Swindon's response to the financial context orientated around three themes:-
- Theme 1: Growing Swindon's Economy and Identifying New Forms of Funding
 - Theme 2: Going Local
 - Theme 3: Building Resilience
- 5.2 Should the Council agree to increase Council Tax levels by 3.99% in 2016-17 and adopt a similar strategy in the three years ahead, the funding gap to be met from changes in service models, a reduction in cost pressures and new income sources will need to identify solutions totalling around £49m over the three years from 2017-18 to 2019-20.
- 5.3 The Growing Economy theme set out clearly in the December report will enable Swindon to continue to growth its housing and business base with expected increases in revenue from this work over the three year period of over £6m.
- 5.4 Significant work is underway to work in partnership with community groups, residents and parish councils to take services closer to local people and this is expected to free up £7m of Council resources. Alongside this, the Council proposes to work with the private sector generating new income sources, driving down the cost of place-based services and putting in place cheaper operating models to free up a further £12m of costs and alleviate future pressures from place-based services.
- 5.5 Through building resilience in our communities, the Council's financial strategy targets a flat cash position across services supporting vulnerable people over the three year period resulting in a net £17m of cost pressures having to be managed down or offset by savings achieved by putting in place new service models.
- 5.6 In addition to the focused work structured within the three themes, other service reshaping and efficiency work will continue across council services generally and also to ensure the enabling functions respond to the changing needs of the wider organisation that work is expected to deliver around £8m of further savings over the year-year period 2017-18 to 2019-20.
- 5.7 The Efficiency Statement on the next page sets out an overview of the Council's financial plan for this period and Members are asked to endorse this plan before it is submitted to the Secretary of State as part of the requirements placed on local councils wishing to accept a four year funding settlement.

Efficiency Statement

	2017-18	2018-19	2019-20	Total
	£'000	£'000	£'000	£'000
<u>Pressures:-</u>				
Reduction in Revenue Support Grant	7,246	4,628	4,682	16,556
Reduction in New Homes Bonus	(38)	2,646	181	2,789
Predicted Reduction in Other Specific Grants	2,292	1,726	2,837	6,855
Pay and Prices Inflation	4,700	5,200	5,500	15,400
Social Care Packages	4,000	3,500	3,000	10,500
Pension, NI and Debt Charges	2,000	2,000	2,000	6,000
Other Cost Pressures	1,500	1,500	1,500	4,500
Reduction in Collection Fund Surplus	300	300	300	900
Total of Funding and Cost Pressures	22,000	21,500	20,000	63,500
Income if Members choose to increase Council Tax by 1.99%	(1,641)	(1,697)	(1,755)	(5,093)
Income if Members choose to increase Council Tax by further 2% for Adult Social Care Precept	(1,649)	(1,706)	(1,764)	(5,119)
Estimated new Better Care Funding (15% reduction allowed for redistribution)		(1,362)	(2,876)	(4,238)
Gap after assumed increases in income	18,710	16,735	13,605	49,050

<u>Responding Strategies to close the Gap:-</u>				
Theme 1: Growing Swindon's Economy and Identifying New Forms of Funding				
Business Rates Growth	(800)	(800)	(900)	(2,500)
Council Tax Base Growth	(1,169)	(1,192)	(1,216)	(3,577)
Theme 2: Going Local				
Removal of Council subsidy of place-based discretionary services by accessing new forms of community-based funding and commercial opportunities	(4,000)	(2,000)	(1,000)	(7,000)
Reduction in Council subsidy of statutory place-based services by reducing service levels and market-testing service costs	(4,000)	(4,000)	(4,000)	(12,000)
Theme 3: Building Resilience				
Flat-line Social Care / Vulnerable People Costs through more targeted upstream prevention and service provision, outcome-based commissioning and demand management	(6,000)	(6,000)	(5,000)	(17,000)
Other emerging strategies:-				
Mitigation of part of inflationary growth through pay and procurement strategies	(600)	(600)	(600)	(1,800)
Reduction in enabling functions, cost of democracy & other services through service reductions and better use of technology	(2,141)	(2,143)	(889)	(5,173)

Balance	0	0	0	0
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