
Budget Strategy and Medium Term Financial Plan (including the Capital Programme and Housing Revenue Account)

Report of Cllr Richard Wenham, Executive Member for Corporate Resources
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This decision relates to a non-key decision.

Purpose of this report

1. This report starts the formal process that sets a framework for 2017/18 – 2020/21 MTFP with updated planning assumptions. It also considers the impact of changes in Local Government financing and how these may be addressed leading to the setting of a budget for 2017/18 and Council Tax rate in February 2017.
2. The report also proposes the process for consultation.

RECOMMENDATIONS:

The Executive is asked to:

1. **recognise the risks and uncertainty surrounding the MTFP;**
2. **endorse the proposed framework for the updating of the Medium Term Financial Plan 2017/18 – 2020/21 and the preparation of a Budget for 2017/18; and**
3. **approve the approach to the consultation this year.**

<i>Reason for Recommendation(s):</i>	<i>To put in place a framework to meet the financial challenges faced by Central Bedfordshire Council over the medium term.</i>
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Introduction

3. This report sets out the framework for updating of the MTFP, so that it covers the period to 2020/21 including setting the Council's 2017-18 Budget.

4. The process and timetable for setting updating the MTFP and the budget up to its approval by Council on 23 February 2017 is also included in this report for consideration.

Policy

5. The Council's constitution and related financial procedures guide the approach to budget setting. In addition, the Council is required to consult on its budget proposals.

Background

6. The Budget for 2016/17, which was agreed by Council in February 2016, was set in an environment of tough economic conditions and the continuation of Government's public spending reductions. The MTFP identified a budget 'gap' (that is, a requirement for further savings as yet unspecified, in addition to those already identified) of some £8.1 million for 2017/18 and £2.8 million over the following 2 years to 2019/20.
7. The MTFP will need to address this and the Council will be required to make further efforts to find savings through service efficiencies in order to avoid service reductions.
8. In the last settlement (2016/17 MTFP), the Government announced the phasing out of the Revenue Support Grant (RSG) and provided a projection of the amount that CBC will receive. This Grant reduces substantially each year and is phased out entirely by 2019/20.
9. Council Tax freeze Grant has also been subsumed into RSG and so is lost as a source of income to CBC.
10. The current plan assumes a council tax increase (for General Fund purposes) of 1.75% increase for 2017/18 and 1.55% for the following two years. This means there is limited scope to increase Council Tax any further and so any significant increase in Council tax funding will need to be delivered through growth in the tax base. The plan currently assumes that the Council Tax base will increase by 1.85% per annum.

The plan also assumes a 2% Social Care Precept in every year of the plan period.

The funding currently built into the last iteration of the MTFP is therefore effectively already close to the upper limit of what can be achieved.

11. In addition the current plans for National Non Domestic rates (NNDR) are already very demanding and will need to be considered carefully at a time of considerable economic uncertainty which may impact on the growth plans of businesses.

Issues

12. The financial plan will address the following issues:
- (a) the priorities of the Council and more specifically the outcomes it wants to achieve over the medium term under those priorities and the allocation of resources to deliver them;
 - (b) changes to the MTFP (revised economic, financial and demographic assumptions and facts);
 - (c) the Revenue Budget for 2017-18, including the required level of General Fund reserves;
 - (d) the Capital Programme for 2017-18 through to 2020-21;
 - (e) the Housing Revenue Account budget (Landlord Business Plan) for 2017-18.

MTFP as per 2016/17 Budget Report

13. The Council agreed a MTFP on 25 February 2016 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for local authorities.
14. The key figures from this current MTFP are shown in the table below:

Medium Term Financial Plan	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Funding				
Revenue Support Grant (RSG)	20,150	10,601	4,683	0
Retained Business Rates	32,014	37,738	39,504	43,369
Council Tax :				
Council Tax Increase 1.95% in 16/17, 1.75% Increase in 17/18 and 1.55% Increase in 18/19 & 19/20.	2,448	2,368	2,220	2,334
2% Social Care Precept Council Tax Increase	2,511	2,702	2,854	3,013
Total Council Tax	134,575	137,874	145,421	153,367
Use of / (Contribution to) Reserves	219	(2,486)	(2,193)	0
Transitional Funding 2016/17	2,234	-		
Transitional Funding 2017/18		2,226	-	
Total Funding	189,192	185,953	187,415	196,736
Growth (%)		-1.74%	0.78%	4.74%
Planned Revenue Budget				
Base Revenue Budget Expenditure	375,871	378,552	375,313	376,775
Net Inflation	2,660	2,714	2,714	2,714
Pressures	15,279	9,608	7,983	7,431
Base Income	(189,360)	(189,360)	(189,360)	(189,360)
Total Planned Spending before savings	204,448	201,513	196,649	197,559
Growth before Savings (%)		-1.46%	-2.47%	0.46%
Efficiency Savings	(15,257)	(7,000)	(5,968)	(5,832)
Efficiency Savings yet to be allocated	-	(8,113)	(2,545)	(219)
Total Planned spending after savings	189,192	186,401	188,136	191,508
Growth after Savings (%)		-1.50%	0.92%	1.76%
Budget Gap / (Surplus)	0	448	721	(5,228)

15. This Plan enables the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The level of General Fund Reserves at 31 March 2016 was £15.5m (subject to audit).

All of the above projections and in particular Retained Business Rates were based on assumptions that were current at that time and will need to be refreshed as part of this MTFP. The level of Revenue Support Grant for the next three years was set as part of last year's Settlement, but is still subject to the four year settlement "certainty" offer for which terms are still not yet clear.

16. A minimum prudent level of reserves, based on assumptions contained in the agreed MTFP is a range between £11.5m and £25m. This takes into account the Council's expenditure levels, increasing risk profile and investment plans. The strategy for maintaining reserves is set out in paragraph 46 below and the minimum prudent level will be reviewed as part of the final budget setting process, to reflect changes such as 100% retention of business rates, business rates revaluation in 2017, the Better Care Fund and integration with the NHS.

The current uncertainty economically also means we may need to revisit our view of prudent reserves.

Current Economic Outlook

17. The referendum vote to leave the European Union has created significant political and economic uncertainty. It is difficult to assess what the implications will be for both the United Kingdom and in particular the Public Sector.
18. On the 24 June 2016 the Bank of England Governor, Mark Carney, issued a press release which he summed up as follows:
19.
 - *Some market and economic volatility can be expected as this process unfolds. But we are well prepared for this.*
 - *The Bank will not hesitate to take additional measures as required as markets adjust and the UK economy moves forward. These adjustments will be supported by a resilient UK financial system – one that the Bank of England has consistently strengthened over the last seven years.*
20. Following Brexit, the former Chancellor announced that eliminating the budget deficit by the end of this parliament was no longer a target. This has subsequently been confirmed by the newly appointed Chancellor.
21. Although these are uncertain times, both the above announcement and also a potential focus on growth rather than austerity, alongside the new trade agreements that may be put in place over time could provide significant economic benefits for the United Kingdom, and so a balanced view of the impact of Britain's exit from the European Community needs to be taken.
22. The MTFP will need to assess the overall implications for CBC based on the information available at the time that we look to finalise our plans for the next four years.

Strategic and Directorate Plans

23. The Council's high level priorities have been reflected in its Medium Term Plan, which identifies specific service outcomes by each Directorate. These defined priorities which are themselves being reviewed as part of the development of a new 5 year Plan for the Council, will become the driver behind the financial assumptions within the MTFP. They will also determine where the efficiencies are to be found and identify cost pressures.

Areas of Focus

24. Although still at an early stage of the process, a number of areas for further efficiencies have been identified, which build on the four year efficiencies programme outlined in the 2016/17 MTFP. These include:

- Income from assets
- Recruitment
- Shared services
- Waste
- Digitisation
- Review of Commissioning
- Review of Learning & Development
- Financial Transactions
- Customer Pathways

Some of these workstreams address the medium to longer term, whilst some should contribute in 2017/18.

Plans are currently under development to firm up on the likely financial benefits, and how these will, be achieved.

Consultation and Communication

25. The planned consultation process and timelines are as follows:

26. Phase 1: Market Research

- Residents Survey research is commissioned August 2016 with fieldwork commencing first week of September 2016.
- This is a full survey based on a weighted sample of 1200 residents. It covers a range of issues such as satisfaction with the Council and services.
- A Budget section will be included covering council tax, local priorities and saving options.
- Results will be available by mid to late October 2016.

27. Phase 2: Budget Consultation

- Sign off consultation questionnaire, supporting documentation by the 9 December 2016.
- Consult 4 January 2017 – 8 February 2017 (5 weeks).
- A survey limited to council tax, local priorities and saving options. Available to every household (unweighted sample) online and paper.
- Interim results will be presented to 7 February 2017 Executive followed by analysis of full results and presentation to Council on the 23 February 2017.

28. A plan for consultation with businesses will also be drawn up.

29. It is not envisaged that there will be any material changes to the Council Tax Support Scheme so such consultation as required will be covered as part of the main budget consultation.

30. Consultation on any individual proposals that result from the MTFP will follow the appropriate route.

Budget Assumptions

31. The current MTFP as agreed at Council in February 2016 includes a number of assumptions that will need to be reviewed and revised as appropriate for the new MTFP. The key factors are detailed in the paragraphs below. The Plan will also be extended a year to include projections for 2020-21.

32. The MTFP included an assumption that reserves would exceed the minimum prudent level at 31 March 2016 and that there will be no further material transfers to General Fund Reserves. General Fund Reserves stood at £15.5m at 31 March 2016 (subject to audit) and will be kept under constant review to ensure that there is adequate protection against adverse risks from economic, financial and other factors.

33. Detailed modelling of projected NNDR receipts is currently underway and will inform the MTFP process. Plans will need to be robustly tested using sensitivity analysis given the economic uncertainty.

34. Inflation levels for the current MTFP are set at the rates detailed in the table below:

Table 2 – Current MTFP inflation assumptions

	2017-18 and future years
Employees:	
Pay	1.0%
Increments	0.0%
NI	0.0%
Prices	1.0%
Contracts	1.0%
Income	1.0%

35. These inflation factors will be subject to review, including taking account of new economic data, particularly in light of the referendum decision and supplier contract terms.
36. A number of known service pressures have been included in the MTFP, such as those arising from increased demand for care services and an ageing population, pensions strain and capital financing. The impact of any interest rate changes, consequent on the turmoil in the financial markets, will be of particular concern. Other pressures will emerge as the budget process develops. This will in turn increase the level of savings required.

Capital Programme

37. The financing costs of the current Capital Programme is putting a significant strain on the General Fund revenue budget . By the end of the current MTFP period, the cost of capital financing will be £19.1M, which equates to 10% of the Council's total net revenue budget.
38. During this budget process, consideration should be given to the sustainability of the current planned levels of capital spend and every effort needs to be made to keep the Capital Programme affordable given the demographic and funding pressures that the Council faces.

Housing Revenue Account (HRA)

39. Following legislative changes taking effect on 1 April 2012, the Council now 'self finances' the Housing Revenue Account. Central Bedfordshire now retains all rental income from its housing stock, whilst in return, on 1 April 2012, the Council received an allocation of the national housing debt. The Current MTFP includes rental income of c£28m to £29m for each of the three years to 2019/20, fully offset by revenue and capital spending, and debt repayment costs.

40. The impact of the Housing and Planning Act 2016 will need to be closely monitored. Housing association tenants will have their right to buy discounts extended to come in line with those offered to Council tenants. In order to fund this, Councils will need to sell 5% of their most valuable housing once it becomes vacant and build more affordable housing with the proceeds in order to increase the national housing supply.

Financial Settlement – December 2015

41. The Financial Settlement announced on the 17 December 2015 and subsequently amended on the 23 December 2015 was very significantly worse for Central Bedfordshire than had been anticipated both in absolute and comparative terms.
42. Whilst the removal of Revenue Support Grant (RSG) had been signalled previously, it had been indicated that there would be compensatory increases in retained business rates (NNDR).
43. In a major change of policy direction, Government has now applied a Comparative Spending Power methodology to determine which authorities could replace lost RSG with local Council Tax increases.
44. It is clear from guidance issued by DCLG that Government has made the assumption in its financial modelling that upper tier councils will raise council tax by both a 2% precept earmarked for adult social care and an assumed 1.75% for inflation in each of the next four years.
45. As a result of this methodology, RSG for Central Bedfordshire has been removed entirely over the life of the MTFP which includes all of the Council Tax Freeze Grants previously earned and also the Care Act funding.
46. The Financial Settlement contained the following key issues for Central Bedfordshire:
47. Revenue Support Grant/NNDR Retention
- RSG phased out by 2019/20. It had previously been assumed this would be broadly neutral over the length of the Parliament as councils as a whole would retain 100% of NNDR income.
 - It is likely that any income the Council receives from the NNDR retention scheme will be at least matched by a transfer of additional responsibilities such as funding administration of Housing Benefit for pensioners, funding Public Health from retained NNDR and so losing the Public Health Grant. Confirmation of the specific transfer of additional responsibilities is still awaited.
 - There is currently a major exercise underway being led jointly by DCLG and LGA, examining the way in which 100% retention of NNDR will work. This includes looking at the way NNDR appeals are handled, the operation of the current levy, top ups and tariffs, re-modelling the baseline and reset periods and the frequency of revaluations.

48. New Homes Bonus

- The cash value of New Homes Bonus (NHB) has been significantly reduced by £800M nationally from 2018/19 in order to fund the Better Care Fund.
- NHB will also be reviewed and is subject to a consultation which is looking at proposals such as:
 - Restricting it to 4 years or less (currently 6 years).
 - Linking payment to the existence of an adopted Local Plan.
 - Setting housing growth percentage thresholds below which NHB will not be earned.
 - No NHB payment if planning approval is granted on appeal.
- The Council is partially protected from reductions in NHB through the adopted policy of recognising only the 2014/15 grant level in the Budget. Any increase over this level has been allocated to an earmarked reserve. The reserve currently stands at £6.8m at the end of 2016/17.

49. Social Care Precept

- The introduction of an option to raise a 2% Council Tax Precept to help fund adult social care. This is not one off and would be 2% compounded each year. This is entirely separate from a general increase in Council Tax, where the referendum cap is still 2%.
- This is not new additional funds to the Council as Government factored this into their calculations when they considered the phasing out of RSG and the timing of that phasing.

50. Public Health Grant

- A reduction in the current Public Health Grant nationally was announced as 2.2% 2016/17, 2.5% 2017/18, 2.6% 2018/19 and 2019/20.

51. Four Year Funding Offer

- Government has announced that a four year settlement will be available to those authorities that wish to take up this offer and can demonstrate robust efficiency plans.
- Further details are not yet known, but this is likely to be restricted to the RSG element only as NNDR and NHB are subject to further consultations.

Budget Process – Revenue & Capital

52. The budget process will deliver alignment of the revenue and capital budgets, with a detailed review of the capital programme leading to a realistic budget over the planning timeframe.

53. Budgets will be built up during June to the end of August. This will include a full assessment of pressures and efficiencies which will then be the subject of formal review at Overview and Scrutiny meetings during January 2017. Following this process there will be further adjustments as required, leading to the preparation of a Final Budget Report with a balanced budget. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.
54. Directorates will review their strategies for the next 4 years as part of the MTFP.
55. Directorates will undertake a rigorous review of existing MTFP pressures & efficiencies across all 4 years. If existing pressures increase or efficiencies can no longer be delivered, compensatory efficiencies need to be found. New pressures and efficiencies should be reviewed.
56. Directorate strategies will include a rigorous review of the current Capital Programme and it should be updated to include 2020/21.
57. In summary, the recommended process is:
- 1. Review existing pressures and efficiencies.
 - 2. Review new emerging pressures and efficiencies and key themes.
 - 3. Directorate budget reviews (late September/early October).
 - 4. Consolidation (mid/late October).
58. The baseline for the 2017/18 Budget will be the 2016/17 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

Budget Process – Fees & Charges

59. For the 2017/18 budget process, Council approval to Fees & Charges price increases will be sought at November 2016 Council.
60. Most Fees & Charges prices will change on the 1 January 2017.

CORPORATE IMPLICATIONS

Council Priorities:

A sound understanding of the financial climate, a robust plan for the medium term and proper awareness and mitigation of risks are key to enable the Council to further its objectives for the community.

61. **Financial:**

The planning process this year takes place against an increasingly complex background.

Political/Economic

On the 23 June 2016, a referendum took place on whether or not the United Kingdom should leave the European Union. The vote, though close, was in favour of leaving. Following this result, the Prime Minister announced his resignation, a leadership contest commenced and as a result a new Prime Minister is now in place.

This brings political and economic uncertainty, both in terms of possible changes in Government Policy and also as the financial markets react to the referendum result and also the ensuing political issues relating to exiting the European Union.

Funding

During the last MTFP, as part of the December 2015 Financial Settlement, Department for Communities and Local Government (DCLG) announced an offer of a four year settlement subject to certain (as yet not fully defined) conditions.

Local Authorities have until 14 October 2016 to take up this offer, and work is currently underway supported by the LGA to define those conditions. At best the “certainty deal” will apply only to part of the Council’s funding and will not include the element of business rates retention.

The future of National Non Domestic Rates (NNDR) is also uncertain as a result of a revaluation rebasing due to take in 2017, and the move toward 100% retention by the local government sector of locally raised NNDR (again with conditions attached).

The DfE also announced that the Education Services Grant would be reviewed with the aim of reducing this by £600m nationally. This is subject to consultation but puts up to £2.1M at risk for CBC. The consultation will be launched in summer 2016.

This means that incoming resources (Formula Funding and other grants) for the next Medium Term Financial Plan (MTFP) are highly uncertain at this stage and significant downward pressure can be anticipated.

What also needs to be considered is the Chancellor’s recent announcement that he is no longer pursuing his objective of the public finances being in surplus over the life of the Parliament. The implications of this are also not known at present, but potentially could reflect an easing of the funding pressures in the short term.

Legal:

62. Nothing specifically arising from this report, but the Council is required to set a balanced budget and to undertake consultation on its proposals. See also Equalities and Consultation sections below.

Risk Management:

63. The implications of the referendum to leave the European Union will have far reaching consequences which will have to be closely monitored.

Prudent estimates of known factors will be built into the MTFP, along with reasonable estimates where no firm data exists.

Staffing (including Trades Unions):

64. None arising directly from this report.

Equalities/Human Rights:

65. To ensure that any decision does not unfairly discriminate, public authorities must be rigorous in reporting to Members the outcome of an equality impact assessment and their legal duties.

Public authorities must ensure that decisions are made in a way which minimises unfairness and without a disproportionately negative effect on people from different ethnic groups, disabled people, women and men. It is important that Councillors are aware of this duty before they take a decision. When decisions are made, decision makers must have access to the relevant data, including the results of equality impact assessment, and of consultation and involvement, to ensure they reach an informed decision.

Overview and Scrutiny:

66. This report will be considered by the Corporate Resources OSC at their meeting on 23 August 2016.

Timetable

67. The key milestones for setting the 2017/18 budget are:

Pressures & Efficiencies Build	Mid June – August 2016
Budget Framework Report to Executive	2 August 2016
Budget Framework Report to Corporate Resources Overview & Scrutiny Committee	23 August 2016
Commence Residents Survey	First week of September 2016
Directorate Budget Reviews	20 September – 6 October 2016
Residents Survey results available	Mid to late October 2016
First Cut MTFP	26 October 2016
Initial Draft MTFP	23 November 2016
Settlement (estimate)	15 – 16 December 2016
Budget consultation	4 January - 8 February 2017 (5 weeks)
Draft MTFP to Executive	10 January 2017
Draft MTFP to OSC's	12 – 24 January 2017
Final MTFP to Executive	10 February 2017
Final MTFP to Council	23 February 2017

Appendix A – Timeline

Background Papers: None