

Central Bedfordshire Council

EXECUTIVE

8 January 2019

Draft Budget 2019/20 and Medium Term Financial Plan

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This report relates to a Key Decision

Purpose of this report

1. The report proposes the draft Budget for 2019/20 and updates the Medium Term Financial Plan (MTFP) approved by Council in February 2018. At the time of writing this report, the Financial Settlement for Local Government has not yet been released but had been expected on the 6th December 2018. The Draft Budget report for the January 2019 Executive will be updated to reflect the impact of the Settlement once published.

RECOMMENDATIONS

The Executive is recommended to:

- 1. approve the updated MTFP 2019/20 – 2022/23 and the draft Budget for 2019/20 as the basis for consultation with the Corporate Resources Overview and Scrutiny Committee and other interested parties.**

Overview and Scrutiny Comments/Recommendations

2. The Corporate Resources Overview and Scrutiny Committee will consider the draft budget and MTFP proposals at its meeting on 31st January 2019 and comments will be included in the final Budget report to be presented to the Executive at its 5th February 2019 meeting, prior to final recommendations being made by the Executive to Council at its meeting on the 21st February 2019.

Issues

3. The Medium Term Financial Plan (MTFP) is intended to set out a sustainable and affordable financial plan that addresses the Council's priorities over the next four years. It should provide for realistic levels of spending, not dependent upon the use of one-off reserves. It should provide for a prudent level of reserves for contingencies and other purposes.
4. This Plan is set against a background of significant uncertainty due to the United Kingdom's decision to leave the European Union (Brexit) as well as changes in the way in which Local Authorities will be funded going forward (Fairer Funding Review and Business Rates Retention).
5. As a result of these changes, and the potential for further adjustments in Government policy which could impose further unfunded costs on the Council, last year's MTFP considered it prudent to seek £5M of additional efficiencies in the medium term over and above the operational efficiencies identified. £0.5M of that has been delivered in 2018/19 and the challenge has been extended to deliver £5.5M in 2019/20 – 2022/23, therefore £6.0M in total. This is referred to in the report as Project £6M.
6. The 2017 Financial Settlement also gave local authorities the option to raise a 6% precept for adult social care over three years (2017/18 – 2019/20) which could be phased as either 2% each year or 3% for two years and zero in the third year. This Council chose to increase the precept by 3% in 2017/18 and 2018/19.
7. It is proposed to increase General Fund Council Tax by 1% for 2019/20 in order to invest in front line services.
8. The draft Budget for 2019/20 sets out the Council's finances and identifies the efficiencies required to produce a balanced budget in light of the ongoing reduction in funding from Government and other pressures. £14.8M of efficiencies are identified for 2019/20.
9. The draft Capital Programme is included elsewhere on the Agenda. However, the revenue implications of the draft Capital Programme are reflected in the proposals contained in this report.
10. A separate report in respect of the Housing Revenue Account (Landlord Services Business Plan) is also presented to this Executive.

Reasons for decision

11. To enable consultation on the draft Budget 2019/20 and Medium Term Financial Plan 2019/20 - 2022/23, prior to final recommendations being made by the Executive to Council on 5th February 2019.

Council Priorities

12. The Council approved the Medium Term Financial Plan (MTFP) for 2018/19 to 2021/22 in February 2018. The MTFP has been updated and extended to 2022/23 and an initial draft Budget for 2019/20 prepared, reflecting new cost pressures and offsetting efficiencies. It does not yet include the detailed Financial Settlement which was to have been announced on the 6th December 2018 but has been delayed.
13. The Council's priorities are:
 - Enhancing Central Bedfordshire.
 - Great resident services.
 - Improving education and skills.
 - Protecting the vulnerable; improving wellbeing.
 - Creating stronger communities.
 - A more efficient and responsive Council.

These priorities are reflected in the budget proposals included in this report.

Corporate Strategy and Background to the Budget Setting Process

14. In February 2018 the Council approved the 2018/19 Budget and Medium Term Financial Plan to 2021/22.
15. Three years ago, 2016/17, was the first time that the Council increased Council Tax and this was as a result of a change in Central Government policy in the way in which local authorities are funded.
16. £105M of savings were achieved during the seven years prior to that, in order to avoid the necessity of increases in Council Tax, whilst protecting front line services. The Council has managed to achieve this by adopting a whole Council approach to robust budget management, delivering more efficient ways of working and ensuring that the Directorate and Service priorities are clearly identified and resourced.
17. In total, since the inception of the Council in 2009, c£135M of efficiencies has been delivered.
18. As part of the MTFP process for 2018/19 - 2021/22 in developing the strategy for efficiencies over the next four years, the Council developed both a thematic approach and also a focus on key specific issues. This focus continues for the 2019/20 MTFP.

19. The strategy upon which the Council's MTFP is based comprises the following elements;
- Digitisation
Using technology to increase automation, improve service efficiency and deliver new opportunities.
 - Different delivery models
Not being constrained by more traditional thinking on how to manage services.
 - Support Functions
The need to look differently at how we currently run these services, to challenge ourselves on what we really want from them and how they need to be aligned within the organisation.
 - Prevention
Continue to focus on early intervention to head off problems before they occur.
 - Systems leadership
The increasing influence and importance of our relationships both externally and internally to develop end to end solutions and approaches to collaboration.

Budget Strategy Review Process

20. The Budget Strategy Review Process for 2019/20 built on that adopted in previous years with a series of "Budget Strategy Reviews" at an early stage. As per last year, given the ever increasing pressures on local authority finances, a greater emphasis was placed on planning for the whole 4 year period of the MTFP.
21. A number of financial challenges and opportunities have emerged during 2018/19 which required a particular focus in the MTFP to mitigate growing pressures and to stabilise costs and service provision. These included:

Homelessness

22. The Council is facing an increase in the numbers of homeless people, and although not yet on the same scale as neighbouring authorities, this is causing financial pressures, which will continue to grow unless addressed.
23. The causes of homelessness are many and complex and so a cross Council response is required. Key planks of the strategy to deal with homelessness include increasing the supply of affordable housing and managing the flow of people through temporary accommodation into more settled accommodation.

Learning Disabilities

24. The number of people (both Children and Adults) with learning disabilities is increasing significantly. The range of disabilities is broad and different responses are required for different conditions.
25. As with Homelessness, no single Directorate within the Council can address this alone. The response involves cross Council working with a particular emphasis on Children's Services, Social Care Health and Housing and also Regeneration (Employment, Skills and Education).

Special Educational Needs (SEN) Transport

26. The costs of transporting Children with SEN are amongst the highest in the country. Central Bedfordshire does not have a disproportionately high number of children with SEN relative to the population of CBC, but the location of special schools and the geography of the area is a major factor.
27. Costs have been and continue to be reduced through improving contractual arrangements with transport providers, but to address this in the longer term will require a more fundamental review of the location of our schools aligned to the growth identified in the Local Plan and also the extent and location of SEN provision (including special schools).
28. The Council is also looking at methods of incentivising parents to make alternative transport arrangements, for example, personal travel plans and budgets.

Mental Health

29. Heightened national media has increased awareness of mental health issues within the population. There has also been increased local investment by the Health System as the primary commissioner of mental health services. East London Foundation Trust have a delegated authority to provide social work assessment responsibilities although care package budget management remains with the Council. All the above has resulted in increased demand and financial implications for CBC.

Digitisation

30. Digitisation provides the Council with a number of opportunities to both improve services through customer self service or process improvement whilst reducing transactional costs.
31. There are a number of system changes planned over the next two years that will enable these opportunities. These include upgrading the Council's:

- Finance/Procurement/Payroll from SAP to S4HANA – the next generation of SAP.
 - Replacing or upgrading the Council's Adult Social Care system (SWIFT).
 - Replacing Acolaid, the Council's (Case Management) system.
32. These system enhancements are, where necessary, funded within the Capital Programme and will deliver significant efficiencies, some in the short term and more over the longer term.
33. In addition, the Customer Pathways workstream of Project £6M will significantly increase the use of digital methods of communicating and transacting with CBC.
34. The outcomes of these areas of focus have been reflected in the budget efficiencies shown at Appendix D(ii).
35. As per last year, the Capital Programme was also included in the Budget Strategy Review process, the two (i.e. revenue and capital plans) being run concurrently. There was an increased focus on what drives costs, and the degree to which these can be controlled or mitigated, together with a rigorous approach to reviewing pressures and efficiencies. Focus was on the major challenges and opportunities facing the Council over the four years to 2022/23.
36. The Capital Programme was also built up thematically. More detail is contained in the Draft Capital Programme, also on the same agenda, but in summary, those themes are:
- Maintaining a high quality environment
 - Creating a place where people can thrive
 - Generating income
 - Enabling more effective delivery

Budget Context

Political

37. The MTFP has been updated against a background of significant uncertainty. On the 23rd June 2016, the United Kingdom (UK) voted to leave the European Union (EU). The required process to trigger the UK leaving the EU (Article 50 of the Treaty on European Union) was invoked in March 2017.
38. The UK is expected to leave the EU on the 29th March 2019 although the political and economic ramifications will probably be felt for many years.

39. A transition period might be in place (a transition period is currently only due to happen if the UK and the EU agree a Brexit deal) covering the period of time after 29 March 2019, to 31 December, 2020, to get everything in place and allow businesses and others to prepare for the moment when the new post-Brexit rules between the UK and the EU begin. It also allows more time for the details of the new relationship to be fully hammered out. Free movement will continue during the transition period. The UK will be able to strike its own trade deals - although they won't be able to come into force until 1 January 2021.
40. The longer term implications of leaving the EU (risks and opportunities) are uncertain at this time. The Council will need to keep a careful eye on developments as the process evolves. A workstream has been set up to monitor new guidelines as they are issued by the Government and a set of measures is in place to identify areas that may be particularly impacted such as the care and construction sectors.

Budget 2018

41. On the 29th October 2018 the Chancellor of the Exchequer, Philip Hammond MP, announced the Budget 2018.
42. Although we await the Provisional Financial Settlement which will provide detail at an individual local authority levels, the key issues that were covered in the Budget include;
 - Social Care Funding - £240M funding each year for 2018/19 and 2019/20 alongside an additional £410M for 2019/20 (£0.68M for CBC in 2018/19. At the time of writing this report the full allocation for 2019/20 was not known. This will be updated in the Final Budget reports in February 2019.)
 - Pothole Funding - £420M to be made available for 2018-19 (current financial year).
 - National Living Wage (NLW) and National Minimum Wage – NLW will rise by 4.9% from £7.83 per hour to £8.21 from April 2019.
 - Business Rates Relief - Bills to be cut by one-third for retail properties with a rateable value below £51,000. Local Authorities to be fully compensated (via s31 Grants).
 - National Productivity Investment Fund – Funding extended and expanded through to 2023-24.

Social

43. There are significant social and economic drivers of change within Central Bedfordshire across the medium term and beyond, particularly:

- Central Bedfordshire's population has increased at a faster rate than nationally at 20% (46,000) since the 2001 census and a further 18% (54,600) increase is forecast between 2016 and 2035.
- The rate of population growth is expected to be much higher for older people, with an expected growth rate of 56% (27,800) for those aged 65+ between 2017 and 2035.
- Schools moving to Academy status and out of local authority control. We expect to maintain a mixed economy of maintained schools, academies and free schools.
- Additionally, technological change is having a profound impact on the delivery of, and public access to, services. This is reflected in use of the internet and social media. This is also reflected in our Digitisation efficiencies and Project £6M (Customer Pathways workstream).

Budget Objectives

44. The principal objectives of the 2019/20 Budget have been:

- To produce a sustainable plan which allows Council priorities to be delivered;
- Realistic spending year on year not dependent on reserves in the long term;
- Reserves maintained at, or above, an agreed minimum prudent level which reflects the risks faced by the Council;
- Cuts to front line services to be avoided; and commitment to efficiency as a means of delivering savings.

Economic Outlook

Consumer Price Index (CPI) Inflation

45. The November 2018 Quarterly Inflation Report issued by the Bank of England advised that CPI inflation is currently at 2.5%.

46. The Bank does not expect inflation to return to its 2% target until Q4 2021.

Economic Growth and Unemployment

47. The Bank's prediction for economic growth as measured by Gross Domestic Product (GDP) in Q4 2018 is 1.75% (average of 1.3% for 2018) slowing to an average of 1.5% during 2020 and 2021 (note the Budget 2018 cites GDP growth of 1.3% for 2018, 1.6% for 2019 and 1.4% for 2020). Both projections are not surprisingly similar.
48. Unemployment is expected to remain low and is currently at 4.0% nationally (June to August 2018 figures), projected to fall slightly to 3.9% by the end of the calendar year.

Interest Rate Implications

49. In November 2018, the Bank of England Monetary Policy Committee voted unanimously to maintain interest rates at 0.75%. It advised that any rises in interest rates are likely to happen at a gradual pace and to a limited extent. Interest rates are also likely to remain substantially lower than a decade ago.
50. Following the increase in Base Rate to 0.75% in August 2018, the Council's treasury management adviser, Arlingclose Ltd, is forecasting two more 0.25% increases during 2019 to take official UK interest rates to 1.25%. No further change is expected for the remainder of the current MTFP period.
51. Since inception, the Council, (excluding Housing Revenue Account refinancing) has borrowed internally from its own cash balances to fund the Capital Programme, as opposed to taking on debt from the Public Works Loan Board (PWLB), a Government lending facility, or financial markets. Cash balances derive from the Council's reserves, grants received in advance and amounts due to creditors. As at 31st March 2018, the Council had borrowed £201.0M from its own balances to fund capital expenditure. Where required by the actual cash flow position, the Council obtains short term borrowing from other public authorities.
52. Revenue implications of the Capital Programme have been calculated on the assumption that any borrowing, required by actual cash flows, will be obtained on a short-term basis taking advantage of current interest rates. Despite recent increases, these are still relatively low.
53. The rate of interest assumed is important in determining the revenue implications of borrowing arising from the Capital Programme. Importantly, the assumed borrowing costs over the period of the MTFP are particularly sensitive to any unexpected increases in interest rates. Table 1 below demonstrates the impact on the MTFP of interest rates above those assumed in the Plan.

54. **Table 1 – 2019/20 to 2022/23 additional costs over the MTFP period of an unexpected increase in the Interest Rate**

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
1% point higher	940	1,227	1,390	1,426
2% points higher	1,878	2,453	2,781	2,851

55. There is a risk that interest rates may be higher than current rates when it comes to refinancing debt taken out on a short-term basis. This would lead to higher revenue implications arising from the draft Capital Programme over the longer term within and beyond the current MTFP period. Conversely, higher interest rates might reduce the Council's net pension liability which would be reflected in the triennial assessment of employer's contributions by the Local Government Pension Scheme Fund Actuary.

56. The Council's MTFP assumes variable interest rate forecasts as follows in table 2:

Table 2

	2019/20	2020/21	2021/22	2022/23
Rate %	1.31%	1.5%	1.5%	1.5%

57. This forecast includes a 0.25% prudent allowance for uncertainty above the base rate assumptions provided by Arlingclose Ltd.

58. The Council reviews and approves annually its Treasury Management Strategy and monitors financial markets on an ongoing basis. It is possible that, based on market conditions, the Council may choose to borrow at a fixed rate of interest to reduce exposure to variable debt. The MTFP makes allowance for one such loan to be taken out on a fixed term basis (£20M for 25 years). However, medium term fixed interest rates are higher than variable rates and any decision to fix more debt in the short term would adversely impact revenue implications within the MTFP.

59. In order to comply with new requirements, the Council has produced a new Capital Strategy and Investment Strategy for 2019/20. Both of these documents will be considered alongside the Final MTFP reports in February.

Budget 2019/20 Consultation

60. The Council has a responsibility to consult with residents and businesses on its draft Budget.

61. Each year the Council conducts a consultation on the budget proposals, in advance of decision making in February. This consultation is planned to launch in early January 2019 and will comprise online and paper questionnaires, promoted to residents through a mixture of social and conventional media initiatives. Key stakeholder groups will also be targeted for promotion, including Town and Parish Councils, the Council's Equality Forum, Youth Parliament, the business community and Older Person's Network.
62. Following the conclusion of the budget process for 2019/20, communication about the final decisions and implications for residents will take place through a range of communications, including a household leaflet that will be delivered with the Council Tax notices in Spring 2019.
63. The planned consultation process and timelines are as follows:
64. Budget Consultation:
 - Consultation will commence on the 3rd January for four weeks closing on the 29th January.
 - Feedback will be invited via an online survey, hard copies of which will also be made available in service outlets and promoted through a range of media outlets and channels.
65. Full results will be presented to 5th February 2019 Executive.
66. A plan for consultation with businesses has also been drawn up which includes;
 - Email bulletins on the Budget Consultation via our 'Let's Talk Business' e-newsletters.
 - Details of the consultation posted on the CBC Business Support webpages.
 - An article on the budget consultation included in the local B2B newsletter.
 - Promotion through the local Federation of Small Business and Chamber of Commerce.
67. Depending on the nature of the budget proposals, further and more targeted consultation may be required with groups (residents or businesses) directly affected by any anticipated changes.

Budget Assumptions

68. The MTFP has been prepared taking account of various scenarios with input from the Local Government Association model and a model provided by LG Futures. However, the proposed MTFP does not yet reflect the detailed Financial Settlement that had been due on the 6th December 2018. The Final Budget report for the February 2019 Executive will be updated to reflect the impact of the Settlement once published.

2018/19 Forecast Outturn

69. Based on the current forecast, this draft Budget assumes 2018/19 outturn will be on budget after use of the budget contingency.

Funding

70. Revenue Support Grant (RSG)

- The 2015 Financial Settlement made an offer to Councils to seek agreement to a Certainty Deal that effectively fixed RSG for the then current MTFP period. CBC's application was accepted and the current assumption is that the Financial Settlement will continue to confirm the levels of RSG announced last year. This is expected to be zero in 2019/20 and thereafter (£4.7M in 2018/19).
- The national proposals concerning 100% retention of business rates are still uncertain but the assumption was that the removal of RSG would be compensated by local retention of Business Rates. What additional responsibilities may be allocated to councils is still not clear.

71. Council Tax

- During the 2015 Financial Settlement, MHCLG radically changed the way in which councils are funded by introducing a Comparative Spending Power approach.
- Fundamental to the calculations that see a significant reduction in RSG and its subsequent removal, is the expectation that councils will increase the Council Tax charge by 1.75% (based on OBR forecast for CPI at that time) per year on average over the life of the MTFP, and also increase by 2.0% to provide funding for Adult Social Care.
- The 2017 Financial Settlement also gave local authorities the option to raise a 6% precept over three years (2017/18 – 2019/20) which could be phased as either 2% each year or 3% for two years. CBC chose to increase the precept by 3% in 2017/18 and 2018/19.

- There is a Council Tax increase assumed for 2019/20 of 1% in order to invest in front line services. Increases of 1.95% per annum are assumed from 2020/21.
- The Council Tax base for 2019/20 has grown by 2.41% as a result of housing growth within Central Bedfordshire and a reduction in the number of claimants of Local Council Tax Support (LCTS).
- For future years, there is an assumption that the tax base will continue to increase by 1.75% per annum as a result of housing growth and also an increase of 0.1% per annum as a result of fewer people claiming LCTS and therefore that they are due to pay the full rate of Council Tax. The combined assumption is a continuation of a 1.85% tax base increase per annum.
- Therefore, over the MTFP period, Council Tax funding is forecast to rise from £154.8M in 2019/20 to £172M in 2022/23.
- The 2017 Budget also announced that in order to “encourage better use of the existing housing stock”, legislation will be brought forward to give councils the power to charge a 100% premium on Council Tax for empty properties (a charge of two times the applicable rate). This was subject to a Bill which received Royal Assent on the 1st November 2018.
- The Act enables Councils to charge a 100% premium from April 2019, a 200% premium from April 2020 on properties empty between 5 and 10 years and a 300% premium from April 2021 on properties empty for 10 years or more.
- A report on this is going to Executive in January and if the recommendation is accepted by Council then Central Bedfordshire will look to implement this from April 2019 when the Act comes into effect.

72. Retained Business Rates

- Business Rates growth has been forecast as a result of new businesses being attracted into the Central Bedfordshire area. Additional business rates income of: £6.4M in 2019/20, £3.2M in 2020/21, £2.2M in 2021/22 and £1.4M in 2022/23 has been included in the MTFP.
- The Business Rates figure in 2019/20 is inflated as a result of a reversal of the prior year Collection Fund deficit (£0.944M), which because it is one off, reverses in 2019/20 increasing that year's income from business rates. The actual deficit impact in 2019/20 is £0.6M. Thereafter, the Collection Fund impact is assumed as zero.

- The Council receives a Section 31 Grant each year as compensation for the Government decision to cap NNDR increases at 2% rather than the full RPI increase due, amongst other factors. This mitigates the deficit referred to above.
- The draft Budget includes the following amounts of Section 31 Grant: £4.0M in 2019/20.

Business Rates Review / Fairer Funding

73. The Business Rates Retention scheme was introduced in 2013/14. Current forecasts for this suggest that Central Bedfordshire will exceed the “Baseline Funding Level” set by Government for the year 2018/19 and hence be able to retain a small element of growth. However, given the uncertain nature of this income, including potential appeals and bad debts, only specific known growth of income has been forecast for 2019/20. For the remaining three years an element of growth has been added, based on modelling work of future developments.
74. The 2015 Autumn Statement announced that a review of the structure of business rates will be carried out by the Government. The review will be fiscally neutral and consistent with the Government’s agreed financing of local authorities at national level. What was previously stated as 100% Business Rates Retention is now expected to be a 75% retention scheme. The timing of the introduction of changes resulting from this review and the detail of how it will work is still not known but is likely to be from 2020/21.
75. The Fair Funding Review will affect how funding is allocated and redistributed between local authorities from 2020 onwards. It is expected to use three main ‘cost drivers’: population, deprivation and sparsity, together with additional cost drivers related to specific local authority services.
76. How this will be done is the subject of further consultation between now and mid-2019; and it will also be influenced by discussions within a number of joint working groups between the Ministry of Housing, Communities and Local Government (MHCLG) and the Local Government Association (LGA). ‘Indicative numbers’ for funding allocations to individual councils are to be available by spring-summer 2019, and the review is to be implemented in April 2020. These dates are based on evidence given by Rishi Sunak MP, to the Housing, Communities and Local Government Committee in April 2018.

2019-20 Business Rates Retention Pilots Invitation

77. The Government has said it is committed to continuing to give local authorities greater control over the money that is raised locally. To help achieve this goal, the Government wants to have 75% business rates retention implemented by April 2020.
78. The Government therefore invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20. The aim of the pilots is to learn lessons to ensure that the transition to the new scheme in 2020/21 is as smooth as possible. It is worth noting that the pilot scheme will most likely be smaller for 2019/20 than it was for 2018/19.
79. As part of the move towards reformed business rate retention, the Government intends to devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences. The intervening period will be used to develop measures to ensure a smooth transition.
80. CBC applied to become a single authority pilot (i.e. not in a pool). We are still awaiting the outcome of that application.

2017 Business Rates Revaluation

81. In October 2014, the Government introduced a new Growth and Infrastructure Bill into the House of Commons which included measures to postpone the next business rates revaluation in England from 2015 to 2017.
82. The Revaluation which came into effect for the financial year 2017/18 was fiscally neutral, MHCLG used the Tariff/Top Up system to equalise any impact on a national basis.
83. Given that the national Revaluation took place at the end of 2016/17, it is currently difficult to forecast the level of appeals as these tend to increase immediately prior to the start of the commencement of the next Revaluation process.

New Homes Bonus (NHB)

84. There is still uncertainty about the future of the NHB scheme.
 - Two years ago, MHCLG consulted on a number of proposed changes to the way in which NHB is administered and awarded. The outcome of this consultation was that the then six-year payment mechanism would reduce to four years by 2018/19 and thereafter.

- In addition, there were other changes including the introduction of a 0.4% housing growth threshold to exclude organic growth from the calculation in order to only reward those Councils that pursued a growth agenda.
- A more recent consultation which closed in September 2018 indicated that the Government expects to increase the baseline in 2019/20, from 0.4% in 2018-19 due to the continued upward trend for house building.
- 2019/20 is the final year of funding agreed by the 2015 Spending Review. The Government therefore intends to explore how to incentivise housing growth e.g. using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Any changes will be consulted on prior to implementation.
- Previously the MTFP has assumed NHB at the 2014/15 level of £6.9M and any growth above this baseline since then has been held in an Earmarked Reserve (EMR) to be used to fund infrastructure costs incurred as a result of growth, or to generate income streams (access to the reserve is subject to an approved business case where appropriate).
- In anticipation of further changes to NHB funding, the MTFP assumes NHB at £6.15M for 2019/20, £3.85M in 2020/21, £1.0M in 2021/22 and nil in 2022/23. Any NHB actually earned during the life of the MTFP above those assumptions, will still go to the NHB EMR.
- NHB is not new or additional funding. The removal of RSG for CBC was based on MHCLG's approach to funding councils using a method called Comparative Spending Power (basically the ability of a council to raise funding locally). This approach included NHB in the calculation, so in effect, contributed to the loss of RSG.

Expenditure

85. Economic

- For 2019/20, non-pay inflation is allocated to Directorates on a contract by contract basis. For the following three years this is then increased in line with the latest Office of Budget Responsibility inflation projections (3.0% in 2019/20 and 2.9% in 2020/21).
- Pay will marginally exceed 2.0% for 2019/20 and is based on the latest Pay Spine Review which has a different % uplift for different Pay Spine Points.

- The National Living Wage (NLW) will not have an impact on Council employees as the Council's pay scales will exceed the NLW rates when the 2019/20 pay award is implemented. The NLW is however, likely to impact on our supply chain in areas like care and so increase our financial pressures.

86. Financial

- General Fund Reserves remain at the 2018/19 level of £15.7M.
- A detailed analysis of reserves is at Appendix G.

87. Contingency

- The contingency within the budget for 2019/20 is £3.1M. A contingency at this level is considered appropriate taking into account risk, the level of savings proposed and difficulties in achieving targets (some of which involve significant organisational change) – including uncertainties over future funding. Holding a contingency within the approved budget provides in-year flexibility to respond to any unanticipated developments. It must also be assessed alongside the level of General Fund reserves.

Better Care Fund (BCF) and Improved Better Care Fund (iBCF)

88. The 2016 Financial Settlement confirmed the continuation of the Better Care Fund (BCF) and an increase in funding for adult social care (paid for by a reduction to NHB) through the iBCF worth £1.5Bn by 2019/20.
89. The Government has proposed to distribute this funding so that the grant acts as a method of equalising the relative needs for social care services and the maximum possible impact of the social care council tax precept. This would lead to some social care councils receiving no additional BCF money. For Central Bedfordshire that additional funding totals £0.619M in 2019/20.

Public Health

90. Spending plans for 2018/19 to 2021/22 have had to be reduced in order to operate within the limit of the revised Public Health Grant.
91. The amount of grant assumed for 2019/20 is £11.943M, a 2.6% reduction on 2018/19.

Medium Term Financial Plan (MTFP)

92. The key elements of the draft MTFP for 2019/20 to 2022/23 are shown at Appendix B. Table 3 shows a summary of this plan. Note both the table and the appendix predates the Provisional Local Government Financial Settlement. Once this is published, this report will be updated for the Draft that goes to January 2019 Executive

Table 3 Medium Term Financial Plan

	2019/20	2020/21	2021/22	2022/23
Medium Term Financial Plan	£m	£m	£m	£m
Funding				
Revenue Support Grant	0.0	0.0	0.0	0.0
Retained Business Rates	42.5	45.7	47.8	49.2
Council Tax	154.8	159.5	165.6	172.0
Use of / Contribution to Reserves	(1.5)	(1.9)	0	(0.6)
Renewable Energy NNDR	0.4	0.4	0.4	0.4
Total Funding	196.2	203.7	213.8	220.9
Revenue Budget				
Opening Base Net Revenue Budget	189.8	196.2	205.2	215.5
Inflation	4.3	3.9	4.0	4.1
Pressures	16.9	15.6	18.0	10.7
Revenue Budget before efficiencies	211.0	215.6	227.1	230.3
Efficiency Savings identified	(14.8)	(10.4)	(10.1)	(5.4)
Closure of prior year gap	0.0	0.0	(1.5)	(1.7)
Total Revenue Budget after efficiencies	196.2	205.2	215.5	223.2
Budget Gap/ (Surplus)	0.0	1.5	1.7	2.2

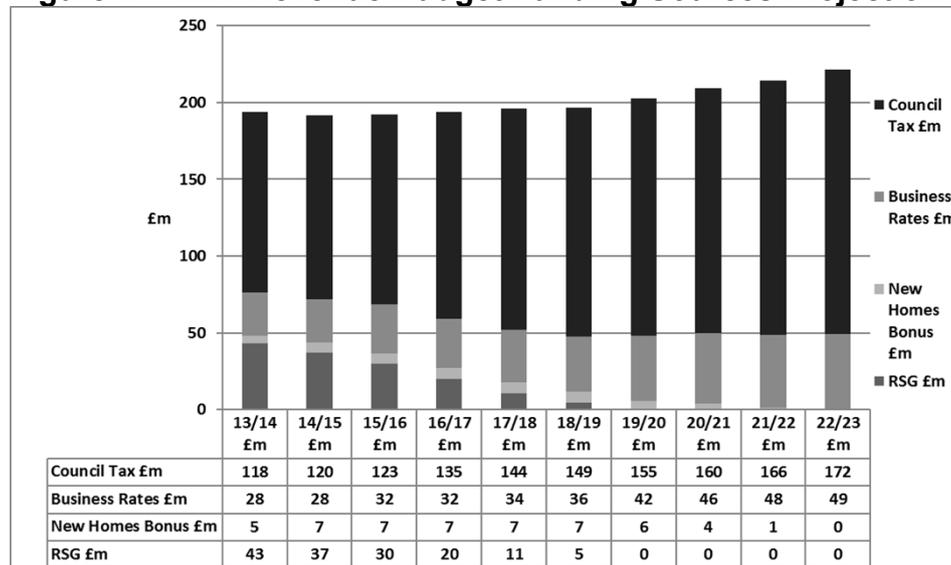
(Note – any minor rounding differences are due to linking to detailed spreadsheets. For more detail see appendices).

Funding Sources

93. The Council's funding from Government over the MTFP period comprises two elements:
- Business Rates Retention Scheme and

- Grants, including Ring Fenced Grants & New Homes Bonus.
94. Figure 1 below shows how funding sources are forecast to change over the MTFP period, with 2013/14 to 2018/19 as comparators.

Figure 1 – CBC Revenue Budget Funding Sources Projection



The above graph, which predates the Provisional Local Government Financial Settlement due in mid December 2018 shows that over the

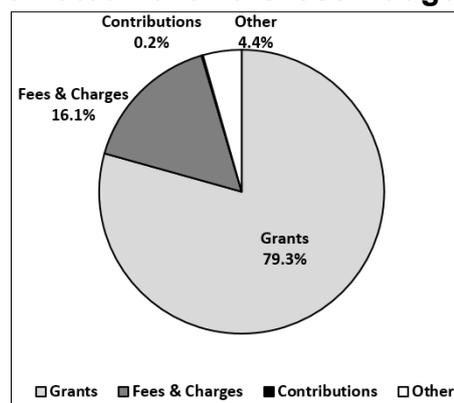
95. MTFP period:

- The Council Tax element grows from 76% of total funding from 2019/20 to 78% by 2022/23.
- Business Rates Retention grows from 21% of total funding from 2019/20 to 22% by 2022/23.
- New Homes Bonus reduces from 3% in 2019/20 to nil by 2022/23.
- Revenue Support Grant was no longer received from 2018/19.

Gross Budget Income Sources

96. Figure 2 below shows the 2019/20 Gross revenue budget income sources (note this is mainly grant income and does not include RSG, Council Tax etc.)

Figure 2 – Estimated 2018/19 Gross Budget Income Sources



Fees and Charges

97. For the majority of services there will be a 2.4% increase for 2019 in line with the CPI for September 2018. Fees & Charges for 2019 were subject to a separate report which was approved by Council in November 2018.
98. New prices for Social Care Health & Housing are due to be taken to Council in February 2019, as changes take effect from April 2019 in line with benefit changes.

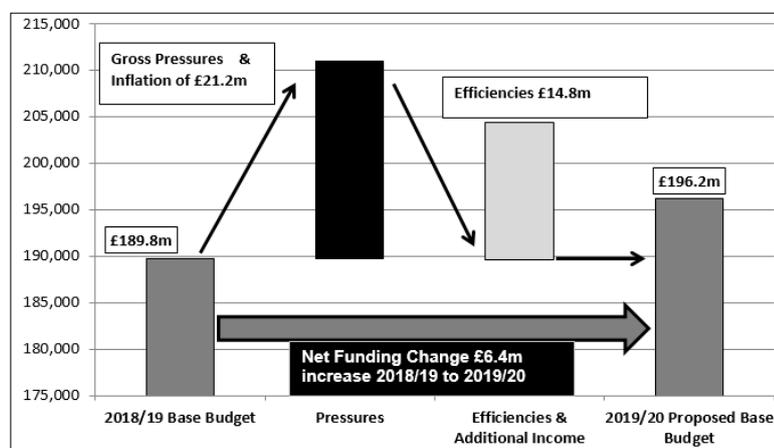
Grants

99. A detailed analysis of grant income will be provided as an appendix to the final budget report due to Council in February 2019.

Expenditure Budget Detail

100. Figure 3 below reflects the change in Council's cost base (this predates the Provisional Local Government Financial Settlement).

Figure 3 Summary of changes to Central Bedfordshire Council's Net Expenditure Budget 2018/19 to 2019/20



(Notes – Any minor rounding differences are due to linking to detailed spreadsheets.)

101. The information in figure 3, above, is broken down by Directorate in Table 4 below.

Table 4 2019/20 Net Expenditure Budget breakdown by Directorate

Medium Term Financial Plan	Net Base Expenditure Budget 2018/19	Inflation	Unavoidable Cost Pressures	Efficiencies	Net Base Expenditure Budget 2019/20
	£m	£m	£m	£m	£m
Social Care, Health & Housing	75.3	1.5	5.8	(7.2)	75.3
Children's Services	35.7	0.4	0.8	(0.6)	36.2
Community Services	51.0	1.8	4.0	(3.7)	53.1
Regeneration and Business Support	5.5	0.2	0.3	(0.9)	5.1
Public Health	0.1	0.0	0.1	(0.1)	0.1
Chief Executive's Team	1.4	0.0	0.0	(0.0)	1.4
Resources	12.7	0.3	0.2	(0.6)	12.6
Capital Financing Costs	10.1	0.0	1.2	0.0	11.3
Corporate Costs	(2.1)	0.0	4.7	(1.7)	1.0
Total	189.7	4.3	17.0	(14.8)	196.2

102. All of the £40.8M of allocated efficiencies during the period of the MTFP have been identified and are shown at Appendices D(i) and D(ii). A summary of these is shown below in Table 5 and Table 6.
103. Paragraph 20 onwards highlighted the key themes identified within the budget strategy. The themes encapsulate the Council's approach to delivering efficiencies whilst maintaining the outcomes from services delivered. Table 5 below groups the efficiencies by these themes.

Table 5 Medium Term Financial Plan Efficiencies by Category

Ref	Category	2019/20	2020/21	2021/22	2022/23	Total
		£000s	£000s	£000s	£000s	£000s
A	Delivering operating efficiencies	(8,491)	(3,617)	(3,853)	(1,165)	(17,126)
B	Determining the Council's offer	(1,090)	(1,966)	(1,326)	(400)	(4,782)
C	Withdrawing services	-	-	(578)	-	(578)
D	Intervening early to reduce demand	(1,937)	(2,563)	(2,235)	(2,525)	(9,260)
E	Generating Income	(3,292)	(2,280)	(2,117)	(1,331)	(9,020)
Total		(14,810)	(10,426)	(10,109)	(5,421)	(40,766)

104. Table 6 below shows the breakdown of allocated efficiencies by Directorate.

Table 6 Efficiencies by Directorate 2019/20 to 2022/23

Efficiencies	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m
Social Care, Health & Housing	(7.2)	(3.0)	(4.6)	(3.2)	(17.9)
Children's Services	(0.6)	(0.6)	(0.5)	(0.6)	(2.3)
Community Services	(3.7)	(3.0)	(2.7)	(1.5)	(10.8)
Regeneration and Business Support	(0.9)	(0.2)	(0.0)	0.0	(1.1)
Public Health	(0.1)	(0.1)	(0.9)	0.0	(1.1)
Chief Executives Team	(0.0)	0.0	0.0	0.0	(0.0)
Resources	(0.6)	(0.6)	(0.4)	(0.2)	(1.9)
Corporate Costs	(1.7)	(3.0)	(1.0)	0.0	(5.6)
Total	(14.8)	(10.4)	(10.1)	(5.4)	(40.8)

(Note – Any minor rounding differences are due to linking to detailed spreadsheets. For more detail see the Pressures and Efficiencies appendices).

Pressures

105. A full breakdown of cost pressures is provided at Appendix C (ii), with the major items relating to:

- Increased demand for care services from an ageing population £8.9M;
- Financing costs of the Capital Programme £8.0M;
- Increased demand for adult disability services £7.4M;
- Reduced reliance on NHB £6.9M;
- Potential impact of funding changes £5.3M;
- Impact of legislative changes and new responsibilities £4.2M;
- Impact NNDR valuation appeals NNDR £1.6M.

106. A breakdown of Pressures by Directorate is shown in Table 7 below:

Table 7 Pressures by Directorate 2019/20 to 2022/23

Pressures	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m
Social Care, Health & Housing	5.7	5.3	5.0	4.8	20.9
Children's Services	0.8	0.2	0.2	0.1	1.3
Community Services	4.0	(0.3)	0.7	0.3	4.6
Regeneration and Business Support	0.3	(0.1)	0.0	0.0	0.2
Public Health	0.1	0.1	0.9	0.0	1.1
Chief Executives Team	0.0	0.0	0.0	0.0	0.0
Resources	0.2	0.4	0.2	0.3	1.1
Corporate Costs	5.8	10.1	10.9	5.1	31.9
Total	16.9	15.6	18.0	10.7	61.2

(Note – Any minor rounding differences are due to linking to detailed spreadsheets. For more detail see the Pressures and Efficiencies appendices).

Reserves

107. One of the key budget objectives is to maintain General Fund reserves to at least a risk assessed prudent minimum level. The anticipated outturn for 2018/19 indicates a General Fund reserve position of £15.7M and so the previously identified minimum prudent level of £11.5M has been achieved. Reserve levels need to take account of the continued reductions in funding levels and significant future pressures, particularly those across all forms of social care services.
108. The reserves policy will be updated to ensure it accounts for these risk factors and will be presented with the final Budget report. The draft budget also includes a contingency element of £3.1M.
109. The assessment of the appropriate level of reserves is continually kept under review. See Appendix G.

Risk Management

110. All budget proposals incorporate a degree of risk. Whilst the Council has a good track record of delivering the required budget savings to date, the following are highlighted as key risks within the proposals:
 - The UK is expected to leave the EU on the 29th March 2019 (BREXIT) although the political and economic ramifications will probably be felt for many years.
 - Demand: The wider impact of the current economic climate on local residents is placing further demands on the Council's services, at a time when the Council needs to reduce spending due to constraints on public expenditure.
 - Reputation: If stakeholder engagement is not managed effectively, the need for the Council to take difficult decisions in response to the contraction of public expenditure will not be understood.
 - Delivery: The delivery of the agreed savings proposals, including those which cut across more than one Directorate will need to be effectively managed to ensure they are realised in practice. Many require major organisational change programmes.

- Increases in the number of children and older people in care.
- Ability to achieve £14.8M savings in 2019/20 and £40.8M in total over plan period.
- Ability to collect the budgeted levels of Council Tax and Business Rates.
- Impact of Universal Credit.
- Inflationary pressures greater than assumed.
- Impact of economic volatility due to Brexit and other global developments.
- Changes to interest rates.
- Financial stability of the Health system.
- School conversions to Academies reducing Business rates.
- Risk of school deficits and redundancy costs falling to the Council.
- Uncertainty around the continuation of New Homes Bonus.
- Uncertainty over new responsibilities to be transferred to Local Government.

2019/20 Capital Programme

111. The draft Capital Programme is not included within this draft Budget report as it is subject to a separate report to Executive on this Agenda. However, by way of context, the key figures within the draft Capital Programme Report 2019/20 are reflected below.

Table 8 2019/20 Capital Programme Budget (Excluding HRA)

Gross Expenditure	External Funding	Net Expenditure
£m	£m	£m
93.9	(58.6)	35.3

Table 9 2019/20 Capital Programme Funding (Excluding HRA)

Funding Source	2019/20
	£m
Gross Expenditure Budget	93.9
External Funding	(58.6)
Net Expenditure Budget	35.3
Funded by :	
Capital Receipts	(12.0)
Borrowing	(23.3)
Total Funding	(35.3)

Table 10 2019/20 Capital Programme Revenue Implications (Excluding HRA)

Minimum Revenue Provision	Interest	Total Revenue Implications
£m	£m	£m
5.2	6.1	11.3

112. Table 11 below shows the change in draft Capital Programme Revenue implications.

Table 11 Capital Programme Revenue Implications (Excluding HRA)

Year	Opening Position	Movements			Closing Position
		Interest Charges	MRP	Total Change	
	£m	£m	£m	£m	£m
2019/20	10.1	0.5	0.7	1.2	11.3
2020/21	11.3	0.6	0.7	1.3	12.5
2021/22	12.5	0.2	1.6	1.9	14.4
2022/23	14.4	(0.1)	1.0	0.9	15.3

Note: the opening position for 2019/20 is the 2018/19 Budget

113. Minimum Revenue Provision (MRP) is the minimum amount which must be charged to the revenue account each year and set aside as provision for repaying the principal element of external loans and meeting other credit liabilities. Interest is the estimated cost of borrowing to fund the Capital Programme.

Timetable Milestones

114. The key milestones in the timetable for Council to agree its budget in February 2019 are set out in Table 12 below:

Table 12 Timetable Milestones

Date	Body	Outcome
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Early January 2019	Public	Budget papers made available to Public and Public Consultation commences
8 th January 2019	Executive	Considers Draft Budget
31 st January 2019	Corporate Resources Overview & Scrutiny	Consideration of efficiencies and savings and draft budget proposals
5 th February 2019	Executive	Recommends Final Budget
21 st February 2019	Council	Approves Budget
28 th February 2019	Council	Reserve Council Meeting in case of delay in receiving notification of other precepts.

Next Steps

115. A period of public consultation will commence from early January 2019.
116. The Corporate Resources Overview and Scrutiny Committee will consider the draft budget proposals at its January 2019 meeting and comments will be included in the final Budget report to be presented to Council at its February 2019 meeting.

Corporate Implications

Legal Implications

117. The Local Government Finance Act 1992 stipulates that the Council must set an amount of council tax payable for the financial year 2019/20 by 11 March 2019. Before calculating the level of council tax payable, the Council must consult representatives of non-domestic ratepayers in its area.
118. The Council's Constitution requires the Executive to publish a timetable for making proposals to the Council in respect of the Budget. The timetable was set out in the Budget Framework report to Executive on the 7th August 2018.
119. There are statutory requirements in relation to consultation with users of the services the Council provides, employees and employee representatives. Where there are issues arising from budget proposals which require such consultation, the Council complies with these requirements.

120. When considering decisions on the budget and the level of Council Tax, Members should have regard to the legal framework for such decisions which is shown at Appendix F(i). When considering the budget, Council must take into account the report of the Council's Section 151 officer on the robustness of the estimates and the adequacy of the proposals for reserves. The Council has a legal duty to set a lawfully balanced budget and approval of the draft budget is part of this process.
121. As a result of a legal challenge relating to West Berkshire Council, the 2018/19 MTFP contained a full list of the primary statutory duties relating to specific budget proposals (Appendix F (ii)). Budget proposals in this MTFP are similar in nature to those last year and so Members are asked to remind themselves of those duties.

Risk

122. Covered in paragraph 110.

Financial Implications

123. The financial implications of the draft Budget 2019/20 and Medium Term Financial Plan are set out in the report.

Equalities Implications

124. Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations in respect of nine protected characteristics; age disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. As part of the budget strategy review process, consideration has been given to the need to address a range of challenges relating to homelessness, support for children and adults with learning disabilities, school transport for children with special educational needs and greater levels of need related to mental health issues.
125. In terms of the specific efficiency proposals, Equality Impact Assessments will be carried out where appropriate.

Appendices

Appendix A	Budget Consultation (not required with the draft budget, but will accompany the final Budget Report in February 2019).
Appendix B	MTFP Four Year Summary
Appendix C(i)	Pressures Summary
Appendix C(ii)	Pressures by Directorate
Appendix C (iii)	Pressures by Category
Appendix D (i)	Efficiencies Summary
Appendix D (ii)	Efficiencies by Directorate
Appendix D (iii)	Efficiencies by Category
Appendix E	2019/20 Budget Diagram
Appendix F (i)	Legal Framework
Appendix F(ii)	Primary Statutory Requirements
Appendix G	Reserves Policy
Appendix H	Directorate Priorities

Background Papers

- (i) Budget Strategy - Executive, August 2018