Central Bedfordshire Council

EXECUTIVE 10 January 2017

Draft Budget 2017/18 and Medium Term Financial Plan

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This report relates to a non-Key Decision

Purpose of this report

1. The report proposes the draft Budget for 2017/18 and updates the Medium Term Financial Plan (MTFP) approved by Council in February 2016. The Provisional Financial Settlement for local government was released on 15 December 2016. The announcement covers many complex areas of funding and in the short time available before publishing this report, it has not been possible to reflect all of this.

2. The Provisional Financial Settlement is covered in more detail at paragraph 46, but the main headlines include the flexibility for Councils to raise the adult social care precept to 3% in 2017-18 and 2018-19 but no more than 6% over the next three years and changes to New Homes Bonus (NHB) and a one off Adult Social Care Grant, funded from a top slice to NHB.

3. Minor changes to the National Non Domestic Rates (NNDR) baseline are included in this draft budget but the Adult Social Care Grant and the potential uplift to the Adult Social Care precept are not included.

4. During last year's Financial Settlement, the Government made the assumption in its financial modelling that councils will raise Council Tax by both the 2% precept earmarked for adult social care and an assumed 1.75% for inflation in each of the next four years. The draft Budget 2017/18 – 2020/21 MTFP currently (excluding the Adult Social Care changes announced in the Provisional Local Government Financial Settlement) continues to broadly reflect that assumption.

5. This is in addition to the significant efficiencies contained in the draft Budget/updated MTFP.

RECOMMENDATIONS

The Executive is recommended to:

1. **approve the draft Budget for 2017/18 and the updated MTFP 2017/18 – 2020/21 as the basis for consultation with the Overview and Scrutiny Committees and other interested parties.**

Overview and Scrutiny Comments/Recommendations

6. Overview and Scrutiny Committees will consider the draft budget and MTFP proposals in their January 2017 cycle of meetings and comments will be included in the final Budget report to be presented to Council at its 7 February 2017 meeting.

Issues

7. 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.

8. The draft Budget for 2017/18 sets out the Council's finances and identifies the efficiencies required to produce a balanced budget in the light of the ongoing reduction in funding from Government and other pressures (excluding the Adult Social Care changes announced in the Provisional Local Government Financial Settlement). £15.2M of efficiencies are identified for 2017/18.

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 2017/18 and Medium Term Financial Plan 2017-2021, prior to final recommendations being made by the Executive to Council on 7 February 2017.

Council Priorities

12. The Council approved the Medium Term Financial Plan (MTFP) for 2016/17 to 2019/20 in February 2016. The MTFP has been updated and extended to 2020/21 and an initial draft Budget for 2017/18 prepared, reflecting new cost pressures and offsetting efficiencies. (It excludes the Adult Social Care changes announced in the Provisional Local Government Financial Settlement.)

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 2016 the Council approved the 2016/17 Budget and Medium Term Financial Plan to 2019/20.

15. Last year, 2016/17, was the first time for a number of years that the Council increased Council Tax which was as a result of a change in Central Government policy in the way in which Local Authorities are funded (see Paragraph 78).

16. Prior to that, the Council has generated savings of more than £104M in order to avoid the necessity of increases in Council Tax whilst protecting front line services. It 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. As part of the MTFP process for 2017/18 – 2020/21 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.

18. The themes the Council is looking to address during this MTFP period are:

- Delivering operating efficiencies including through digitisation (those things that are essentially internal arrangements and will not impact adversely on the public. This includes internal restructures).

- Generating income (some based on capital investments).

- Intervening early to reduce demand (where we are looking to reduce the need to provide a service by prevention actions "upstream").

- Determining the Council's offer (areas where we are looking to limit the Council's financial exposure but in some cases residents could opt to make their own contributions to "top up" the service they receive).

- Withdrawing services where the continued need for them is not apparent.

19. In addition to those themes, the Council also focussed on a number of specific issues and used internal resource which was released for three months on secondment to undertake a series of reviews.

20. Those reviews (known as the MTFP Workstreams covered the following areas):

- Shared services (working more effectively with partners).

- Financial transactions (process efficiencies and realigning responsibilities).

- Recruitment (new emphasis on internal opportunities).

- Waste (changing residents' behaviour).

- Commissioning (joint approach with partners / directorates).

- Learning and Development (unified approach across the Council).

- Income from assets (invest to save projects).

- Digitisation (looking at automating key processes)

- Customer Pathways (reviewing the ways in which customers interact with the Council).

21. The workstream approach has yielded direct savings opportunities which can be built into the MTFP now and there are further opportunities which can be developed in the coming years.

22. Spin off benefits include identifying and freeing up talent within the organisation to look at areas outside their existing knowledge and experience. This process also stimulated some fresh thinking about our operating model and the opportunities presented by digitisation.

23. The outputs from both the thematic approach and the MTFP workstreams were fed into the Budget Strategy Review process.

Budget Strategy Review Process

24. The Budget Strategy Review Process for 2017/18 built on that adopted in prior years with a series of "Budget Strategy Reviews" at an early stage. Given the ever increasing pressures on local authority finances, this year a greater emphasis was placed on planning for the whole 4 year period of the MTFP. For this year this was mainly conducted at Assistant Director (AD) level. This process was refined following input from Senior Management across the Council and key stakeholders. ADs were requested to present their budget in detail covering the full four years of the MTFP. Both the key themes and MTFP workstreams were integrated with the Budget Strategy Reviews.

25. The outcome of these reviews have been reflected in the budget efficiencies shown at Appendix D(ii).

26. 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. The MTFP workstreams also provide input to a number of capital schemes. There was an increased focus on what drives costs, and the degree to which these can be controlled, together with a rigorous approach to reviewing pressures & efficiencies. Focus was on the major challenges and opportunities facing the Council over the four years to 2020/21.

27. 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:

- Replacing and renewing operational assets.
- Investing to save.
- Capturing the benefits of growth for all.
- Protecting and enhancing Central Bedfordshire.
- Responding to new opportunities.

Budget Context

Political

28. The MTFP has been updated against a background of significant challenges. On the 23rd June 2016, the United Kingdom (UK) voted to leave the European Union (EU). At the time of this report, the required process to trigger the UK leaving the EU (Article 50 of the Treaty on European Union) has not been invoked although the Government has issued a statement that it will start the formal process by March 2017.

29. Once Article 50 is invoked, the exit process is expected to last for up to two years although the political and economic ramifications will probably be felt for many years.

30. The longer term implications of leaving the EU are uncertain at this time. The Council will need to keep a careful eye on developments as the process evolves.

Autumn Statement and Spending Review 2015

31. During last year's Autumn Statement, the former Chancellor also advised that councils will retain 100% of Business Rates receipts as a sector and a number of grants would be phased out to deliver a financial package for local government that overall would be cost neutral. The Business Rate levy on growth would also be abolished. The details of this are still not yet clear and changes to the current system are not expected until c.2020 and will be subject to consultation. Some redistributive elements of the Business Rates system are likely to remain. Of particular significance is what additional responsibilities will be allocated to councils as a result of the changes to the financing of local government. At present this is still unclear.

32. The former Chancellor also announced two other major changes :

    - A National Living Wage was introduced from April 2016 setting a national minimum of £7.20 per hour for people aged 25 years and over, rising to £9.00 per hour by 2020.

    - Rents in the social housing sector would reduce by 1% a year for four years (commencing in 2016/17) which has been factored into the updated Housing Revenue Account (HRA) plan but of itself represented a significant change in policy.

33. The former Chancellor also announced the impact of the review on local authority spending (for current responsibilities) at a national level. Detail at individual local authority level was issued in late December 2015.

34. Other major announcements included:

- RSG to be phased out by 2019/20.

- The introduction of an option to raise a 2% Council Tax Precept to help fund Adult Social Care. This was not one off and would be 2% compounded per year. This is entirely separate from a general increase in Council Tax, where the referendum cap is still 2%.

- New Homes Bonus will be reviewed and possibly restricted to 4 years (currently 6 years). The Government response to an earlier consultation is still awaited (see Financial Settlement paragraph 47)

- An apprenticeship levy will be set at 0.5% of an employer's pay bill for companies with payrolls over £3M. This levy will cost CBC £0.450M (including Schools), commencing in 2017/18.

35. The Financial Settlement which followed in December 2015 also introduced the offer of a four year Certainty Deal (also called Efficiency Plan). Authorities were invited to submit an application for a deal which would fix the level of Settlement Funding to those advised at December 2015. This effectively only relates to the Revenue Support Grant (RSG) element of the Settlement.

36. CBC's application for the four year deal was accepted. The Draft Budget currently assumes the RSG levels as advised last year which have now been confirmed in the Provisional Financial Settlement of December 2016.

Autumn Statement 2016

37. On 23 November 2016 the Chancellor of the Exchequer, Phillip Hammond MP, announced the Autumn Statement 2016. This was the first economic statement given by the Government since the vote to leave the European Union.

38. Although we await the Financial Settlement expected in mid December 2016 which will provide detail at an individual local authority levels, the key issues that were covered in the Autumn Statement include:

39. A National Productivity Investment Fund (NPIF) - A new fund targeted at 4 areas that are critical for improving productivity: housing, transport, digital communications, and research and development (R&D). The NPIF will take total spending in these areas to £170bn over the period from 2017-18 to 2021-22, reaching 1.7% of GDP in 2021-22. The new spending includes:

- £7.2Bn to support the construction of new homes, including spending by Housing Associations.

- £4.7Bn on science and innovation.

- £2.6Bn to tackle congestion and improve transport networks.

- £0.7Bn to support the roll out of full-fibre connections and future 5G communications.

- An additional £1.1Bn by 2020-21 in new funding to relieve congestion and deliver upgrades on local roads and public transport networks. On strategic roads, an extra £220M will be invested to tackle key pinch-points. The government will recommit to the National Roads Fund announced at Summer Budget 2015.

40. National Living Wage – Following the recommendations of the independent Low Pay Commission, the National Living Wage (NLW) will increase by 4.2% from £7.20 to £7.50 from April 2017.

41. Local Infrastructure - Local Growth Fund. An allocation of £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals including £556M to the North of England, £392M to the midlands, £151M to the east of England, £492M to London and the south east, and £191M to the south west. Awards to individual LEPs will be announced in the coming months.

42. Business Rates - Full fibre infrastructure relief - A new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017

43. Rural rate relief – To remove the inconsistency between rural rate relief and small business rate relief the government will double rural rate relief to 100% from 1 April 2017.

44. Revaluation – The Chancellor announced that DCLG “Will lower the transitional relief cap from 45% next year to 43%, and from 50% to 32% the year after”. This discretionary relief is fully funded through Section 31 grants.

45. Changes to the financial statements - To promote certainty and simplicity within the tax system, the government intends to move towards having a single major fiscal event each year. In 2017 two budgets will be delivered in Spring and Autumn.

46. From 2018 onwards only one Budget will be delivered in Autumn. The Office of Budget Responsibility (OBR) will continue to produce a Spring forecast and the government will make a Spring Statement responding to that forecast. However, the government will retain the option to make changes to fiscal policy at the Spring Statement if the economic circumstances require it.

Provisional Financial Settlement December 2016

47. The key issues arising from the Provisional Financial Settlement include:

- Confirmation of the 2.00% Council Tax referendum principle.

- Confirmation of an additional 2% adult social care precept and ability to raise the adult social care precept to 3% in 2017-18 and 2018-19 but no more than 6% over the next three years.

- A reduction in Revenue Support Grant of £9.6M as identified in last years settlement and following the successful application by CBC for the Four Year Certainty Deal.

- A reduction in the number of payment years for the New Homes Bonus from 6 years to 5 years in 2017-18 and to 4 years in 2018-19. Bonus will also only be paid above a 0.4% housing growth baseline.

- Consultation on further New Homes Bonus reforms in 2018-19.

- Savings from NHB will be allocated to local authorities as the £241M (national) £0.689M (CBC) Adult Social Care Support Grant based on the adult social care relative needs formula. This is one off funding.

- Confirmation of the 2017/18 Transitional Funding advised last year

- Confirmation of the NNDR baseline for CBC.

48. As mentioned previously, the Adult Social Care changes announced in the Financial Settlement are not yet been included in the draft Budget. RSG and Transitional Funding is line with our planning assumptions based on the Certainty Deal.

Social

49. 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 17.3% since the 2001 census and a further 7.6% increase is forecast between 2015 and 2021.

- Population growth will be highest in the 90 + age group, 38% growth by 2021. Significant growth is also anticipated in the 85+ age group of 33% and 65 + age group of 18%.

- Continuing increased numbers and complexity of demand for unaccompanied asylum seeking children (USAC). CBC is experiencing the second highest numbers (proportionately) of UASC in the Eastern Region as a result of the service station at Toddington which is a major stopping point for Heavy Goods Vehicles that arrive from the continent.

- 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 and public access to services; this is reflected in use of the internet and social media.

Budget Objectives

50. The principal objectives of the 2017/18 Budget have been:

- To produce a sustainable plan which allows Council priorities to be delivered;

- Realistic spending year on year not dependent on reserves;

- 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.

<u>Economic Outlook</u>

Inflation

51. The November 2016 Quarterly Inflation Report issued by the Bank of England advised that inflation as measured by the Consumer Price Index (CPI) is projected to rise above the 2% target within the next twelve months, and the fall in sterling since the referendum suggests inflation could reach 2.7% in 2018. The most recent official figures for November 2016 showed that CPI is running at 1.2% (12 month average) compared to 0.9% in October 2016.

52. The Bank does not expect inflation to return to its 2% target until 2020.

53. Others see a more dramatic move higher in inflation. The National Institute for Economic and Social Research said it expected inflation to quadruple to about 4% in the second half of 2017. The think tank also warned that prices would "accelerate rapidly" during 2017 as the fall in sterling is passed on to consumers.

Economic Growth and Unemployment

54. The Bank increased its prediction for economic growth from 0.8% to 1.4% 2017, but cut the 2018 forecast from 1.8% to 1.5% (note the Autumn Statement cites growth of 1.4% for 2018 picking up to 1.7% the following year).

55. Unemployment is expected to remain stable and is currently at 4.9% nationally (June to August 2016 figures).

56. The Bank of England now thinks the impact of the Brexit vote will be felt later than expected.

Interest Rate Implications

57. The Council’s treasury management advisers, Arlingclose Ltd, do not expect the Bank of England to raise its base rate from its current level of 0.25% over the next three years given the weakness of global growth and a low risk of inflation.

58. The Council is exposed to risk in terms of interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For example, a rise in interest rates would increase the revenue cost of borrowings at variable rates. The Council has a number of strategies for managing interest rate risk and aims to keep a maximum of 50% of its borrowings in variable rate loans.

59. With short term interest rates being much lower than long term rates, it continues to be more cost effective in the short term to use a combination of internal resources and short term borrowing, rather than undertake further long term borrowing. By doing so, the Council is able to minimise net borrowing costs and reduce overall treasury risk.

60. Revenue implications of the draft Capital Programme have been calculated on the assumption that new borrowing will largely be taken on a short term basis, taking advantage of current low interest rates. Council borrowing has traditionally been obtained from the Public Works Loan Board (PWLB).

However in the current market, public authorities are lending to each other at rates below the PWLB for short term periods and the inclusion of these rates coupled with revised assumptions in respect of future increases in UK base rates has lowered the projected revenue implications of the draft Capital Programme over 2017/18 to 2020/21. In years 3 and 4 of the MTFP an assumption has been made that some borrowing will be taken at fixed interest rates.

61. The rate of interest used is important in determining the revenue implications of borrowing arising from the draft 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.

Table 1 - Additional costs over the Medium Term Financial Plan period of an unexpected increase in the interest rate

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
1% Point Higher	1,120	1,430	1,620	1,710
2% Points Higher	2,240	2,860	3,240	3,420

62. 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.

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

Table 2

	2017/18	2018/19	2019/20	2020/21
Rate %	0.50%	0.50%	0.50%	0.63%

64. The Council reviews its Treasury Management Strategy annually and monitors financial markets on an on-going 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. However, 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 period.

Budget 2017/18 Consultation

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

66. Each year the Council conducts a consultation on the budget proposals, in advance of decision making in February.

67. The Council has a track record of having regularly sought feedback from residents both on the specific Medium Term Financial Plan proposals and on more general perceptions of the Council. The most recent resident survey confirmed that a majority of residents agree that the Council is delivering Value for Money (58% which is 6% above the national average) and an increasing proportion of respondents regard the Council to be efficient and well run (56% which is an increase of 9% over the past two years). Although the proportion of respondents who believe residents can influence decisions is somewhat lower at 39%, this response marks a 5% improvement over the past five years.

68. This consultation is planned to launch in early January 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 (see paragraph 68) and Older Person's Forum.

69. Following the conclusion of the budget process for 2017/18, 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 2017.

Consultation and Communication

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

71. Budget Consultation:

- Sign off consultation questionnaire, supporting documentation by the 22 December 2016.
- Consult 4 January 2017 – 30 January 2017.
- 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.

72. Full results will be presented to 7 February 2017 Executive.

73. A plan for consultation with businesses has also been drawn up which includes;

- Email bulletins on the Budget Consultation via our ‘Lets Talk Business’ e-newsletter (a ‘Coming Soon’ email in December, followed by a ‘Consultation now live’ in January).

- Details of the consultation posted on the CBC Business Support webpages.

- An article on the budget consultation included in the local B2B newsletter (bimonthly).

- Promotion through the local Federation of Small Business and Chamber of Commerce.

- An invitation to businesses for CBC to join any face to face network meetings they (the businesses) may hold to present the budget and invite feedback.

74. Depending on the nature of the budget proposals, further and more targeted consultation will be required with groups (residents or businesses) directly affected by any anticipated changes.

Budget Assumptions

75. The MTFP has been prepared taking account of various scenarios with input from the Local Government Association model and also a model provided by LG Futures. However, the proposed MTFP does not yet reflect the Adult Social Care changes announced in the Provisional Local Government Financial Settlement.

76. The following assumptions have been applied in producing the Medium Term Financial Plan.

2015/16 Forecast Outturn

77. Based on the current forecast, this draft Budget assumes 2016/17 outturn will be on budget.

Funding

78. Revenue Support Grant (RSG)

- Last year’s Financial Settlement made an offer to Councils to seek agreement to a Certainty Deal that effectively fixed RSG for the current MTFP. As mentioned in paragraph 35, CBC’s application was accepted and the current assumption was confirmed in the Financial Settlement.

- This resulted in a reduction of RSG from £20.5M in 2016/17 to £9.5M in 2017/18, £5.9M in 2018/19 and zero thereafter.

- The current national proposals concerning 100% retention of business rates assume that the removal of RSG would be compensated by local retention of Business Rates. But what additional responsibilities may be allocated to councils is not yet clear.

79. Council Tax

- During the last Financial Settlement, DCLG 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 CBC will increase 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. General fund Council Tax increases of 1.75% in 2017/18 and 1.55% thereafter are proposed in this MTFP.

- The Council Tax base for 2017/18 has grown by 2.25% as a result of housing growth within Central Bedfordshire and also 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 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 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 £143.0M in 2017/18 to £162.4M in 2020/21.

80. 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: £3.0M in 2017/18, £0.8M in 2018/19, £1.5M in 2019/20 and £2.5M in 2020/21has been included in the MTFP.

- The Business Rates figure in 2017/18 is reduced as a result of a Collection Fund deficit (£0.585M), which because it is one off, reverses in 2018/19 increasing that year's income from business rates. 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.

- It is currently assumed that a similar level of this grant will be received in each of the following financial years

- The draft Budget includes the following amounts of s31 Grant: 2017/18 £1.9M, 2018/19 to 2020/21 £1.6M per annum.

Business Rates Review

81. 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 2016/17 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 2017/18. For the remaining three years an element of growth has been added, based on modelling work of future developments.

82. As mentioned previously, the 2015 Autumn Statement announced that a review of the structure of business rates will be carried out by the Government, reporting by Budget 2016 (still awaited). The review will be fiscally neutral and consistent with the Government's agreed financing of local authorities at national level.

83. The timing of the introduction of changes resulting from this review is not known as yet, but is likely to be at the end of this MTFP period, c.2020.

2017 Business Rates Revaluation

84. 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.

85. The Revaluation which comes into effect for the financial year 2017/18 is expected to be fiscally neutral as DCLG will use the Tarrif/Tops Up system to equalise any impact on a national basis.

New Homes Bonus (NHB)

86. There is considerable uncertainty about the future of the NHB scheme.

    - DCLG recently consulted on a number of proposed changes to the way in which NHB is administered and awarded.

- The Provisional Financial Settlement confirmed a reduction in the number of payment years for the NHB from 6 years to 5 years in 2017/18 and to 4 years in 2018-19. In addition, NHB will also only be paid above a 0.4% housing growth baseline.

- 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 revised MTFP assumes NHB at £6.9M for 2017/18 and 2018/19 and then the loss of NHB over the last two years of the MTFP (£2.3M in 2019/20 and £4.6M in 2020/21).

- Any NHB actually earned during the life of the MTFP above the current baseline of £6.9M will still go to the NHB EMR.

Expenditure

87. Economic

- For 2017/18, 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% 2018/19, 3.2% 2019/20 and 3.3% 2020/21).

- Pay is assumed at 1% for all years of the MTFP. The additional impact of the National Living Wage (NLW) for Council employees is £158K in 2017/18, £187K in 2018/19, £259K in 2019/20 and £382K in 2020/21.

- Provision has also been made for the pensions impact of the triennial actuarial review.

- Other increases in costs due to legislative changes announced as part of the Emergency Budget in July 2015 are estimated at c£1.2M per year over the life of the MTFP.

- Provision has been made in the latter years of the MTFP for a more general impact of inflation being higher than the specific provisions made above.

88. Financial

- General Fund Reserves remain at the 2015/16 level of £15.5M.

- A detailed analysis of reserves is at appendix G.

89. Contingency

- The contingency within the budget remains at £2.1M. 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)

90. Last years Settlement confirmed the continuation of the Better Care Fund (BCF) and increase in funding for adult social care (paid for by a reduction to NHB) through the BCF worth £1.5Bn by 2019/20. In the interim years, the additional funding through the BCF will be worth £105M in 2017/18 and £825M in 2018/2019.

91. 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.

92. For CBC the expected additional funding totals £0.618M in 2018/19 (as advised in last year's Settlement).

93. The introduction of the BCF has marked an important change in how care and health interact within a place. The fact that the nationally mandated £3.8Bn BCF in 2015/16 was increased by an additional £1.5Bn from local care and health budgets demonstrates that local areas are ambitious about integration

94. Last years Settlement confirmed that there were no changes to the amounts available through the Improved Better Care Fund.

Education Services Grant (ESG)

95. Local authorities currently receive funding from the government for their responsibilities for schools from two different funding streams – the Dedicated Schools Grant (DSG) funding that is held centrally by the local authority and the retained duties element of the ESG.

The Government is proposing to bring these two funding streams together into a new fourth block of the DSG the ‘central schools block’, distributed on a simple per-pupil formula. Centrally retained DSG is not currently allocated on a formulaic basis.

96. The Government has announced the new funding scheme will now not apply until 2018/19. However, an announcement that the DSG baseline for 2017/18 is to include ‘Transferring ESG retained duties funding, total £117M, in to the DSG schools block from 2017/18’ suggests that the Government’s intention is to bring these two funding streams together. No further detail has been provided in relation to the councils’ statutory responsibilities or transitional arrangements for the removal of the ESG general funding rate for academies and local authorities. We await a second consultation.

97. The Government has made it clear that the expectation is that local authorities will step back from running school improvement from September 2017 and therefore will not require funding for this function.

98. CBC currently receives £2.1M of ESG and under these proposals would lose £1.5M from September 2017. The impact on the MTFP is therefore a pressure of £0.875M in 2017/18 and £0.625M in 2018/19 as the Grant follows the school academic year rather than the Council’s financial year. These pressures have been factored into the MTFP.

99. The actual ESG allocation for 2017/18 is not expected to be announced until the 20th December 2016 (after publication of this paper) and so any changes will need to be reflected in the Final budget paper in February 2017.

100. The Government has suggested the second stage of the consultation (announced in December 2016) will include additional duties which are to be removed or reformed to support the move to a school-led system and help with managing the savings (loss of ESG). The Government recognises that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed.

101. The proposal is to allow local authorities to retain some of their maintained schools’ DSG to cover the statutory duties that they carry out for maintained schools. This would need to be agreed by the maintained school members of the Schools Forum (assuming current regulations will apply).

Public Health 0 to 19 Children

102. From the 1st October 2015, responsibility for the commissioning of 0 to 5 year old children’s public health services transferred from NHS England to Local Government. CBC already had responsibility for 6 - 19 Public Health for Children.

103. The 0 to 5 children’s public health commissioned service currently includes the Healthy Child Programme provided predominantly by health visitors and the Family Nurse Partnership (FNP) targeted services for teenage mothers.

104. This transfer was initially fully funded by an increase to the Public Health Grant. The full year cost for 2016/17 was £3.8m. However, the 0 to 5 children’s public health service was included in the grant that was subject to a 6.2% in year reduction (£1.0M in 2017/18) across all aspects of Public Health. This is not expected to impact the net budget position.

105. Spending plans for 2017/18 to 2020/21 will be reduced in order to operate within the limit of the revised Public Health Grant.

Medium Term Financial Plan (MTFP)

106. The key elements of the draft MTFP for 2017/18 to 2020/21 are shown at Appendix B. Table 3 shows a summary of this plan. Note both the table and the appendix exclude the Adult Social Care changes announced in the Provisional Local Government Financial Settlement.

Table 3 Medium Term Financial Plan

Medium Term Financial Plan	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Funding				
Revenue Support Grant	10.6	4.7	0.0	0.0
Retained Business Rates	34.3	36.4	37.7	41.2
Council Tax	143.0	146.0	154.0	162.4
Use of / Contribution to Reserves	(0.9)	(0.6)	(1.5)	(1.6)
Transitional Funding	2.2	0.0	0.0	0.0
Renewable Energy NNDR	0.4	0.4	0.4	0.4
Total Funding	**189.6**	**186.9**	**190.6**	**202.4**
Revenue Budget				
Opening Base Net Revenue Budget	189.2	189.6	189.3	191.1
Inflation	2.4	2.5	2.6	2.6
Pressures	13.2	8.0	13.5	18.7
Revenue Budget before efficiencies	**204.8**	**200.1**	**205.4**	**212.4**
Efficiency Savings identified	(15.2)	(10.7)	(11.9)	(8.6)
Closure of prior year gap	0.0	0.0	(2.5)	(0.5)
Total Revenue Budget after efficiencies	**189.6**	**189.3**	**191.1**	**203.3**
Budget Gap/ (Surplus)	**0.0**	**2.5**	**0.5**	**0.9**

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

Funding Sources

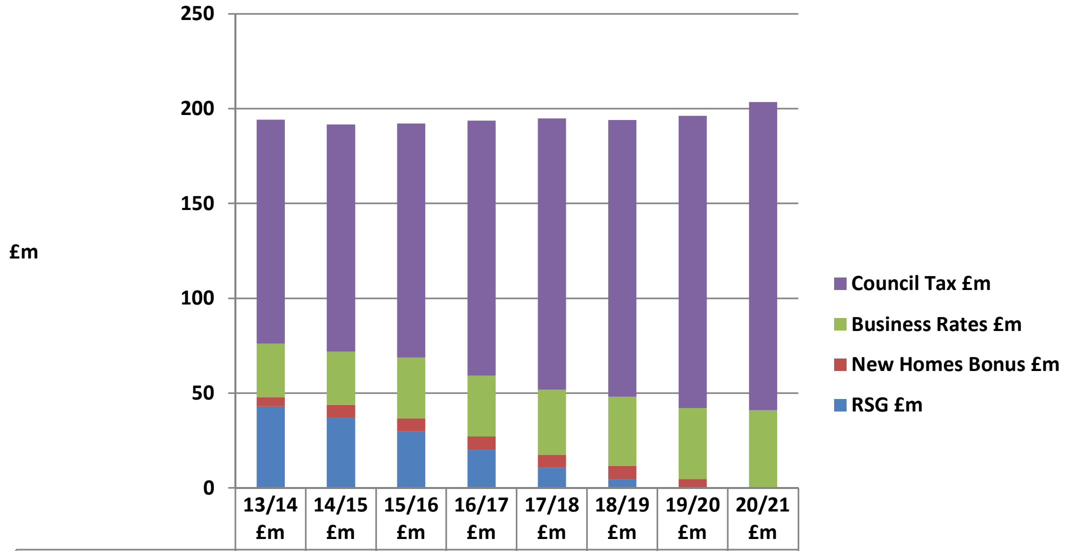
107. The Council's funding from Government over the MTFP period comprises three elements:

- Revenue Support Grant (RSG) – two years only.
- Business Rates Retention Scheme and
- Grants, including Ring Fenced Grants & New Homes Bonus

108. Local Government funding sources are forecast to change significantly over the Medium Term Financial Plan period 2017/18 to 2020/21.

109. Figure 1 below shows how funding sources are forecast to change over the MTFP period, with 2013/14 to 2015/16 as comparators.

Figure 1 – CBC Revenue budget Funding Sources Projection



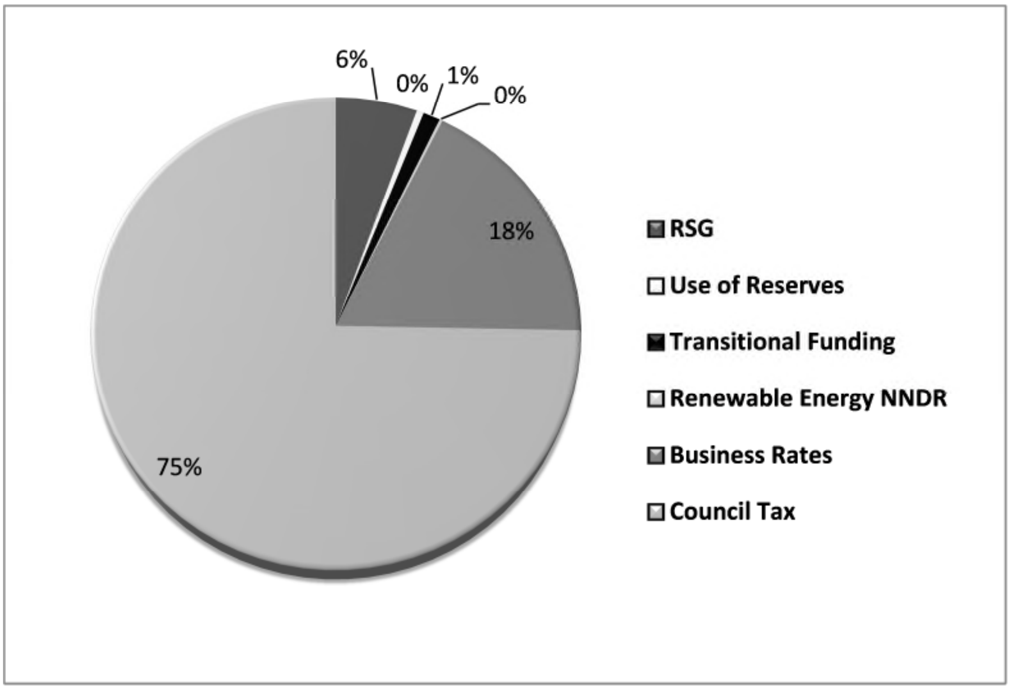
	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m
Council Tax £m	118	120	123	135	143	146	154	162
Business Rates £m	28	28	32	32	34	36	38	41
New Homes Bonus £m	5	7	7	7	7	7	5	0
RSG £m	43	37	30	20	11	5	0	0

110. The above graph, which excludes the Adult Social Care changes announced in the Provisional Local Government Financial shows that over the MTFP period:

- The Council Tax element increases from approximately 74% of total funding in 2017/18 to 84% by 2020/21.
- Business Rates Retention increases from 18% in 2017/18 to 21% in 2020/21.
- New Homes Bonus reduces from 4% in 2017/18 to zero by 2020/21.
- Revenue Support Grant decreases from 5% in 2017/18 to zero in 2019/20.

111. The 2017/18 draft net revenue budget funding sources are shown in Figure 2.

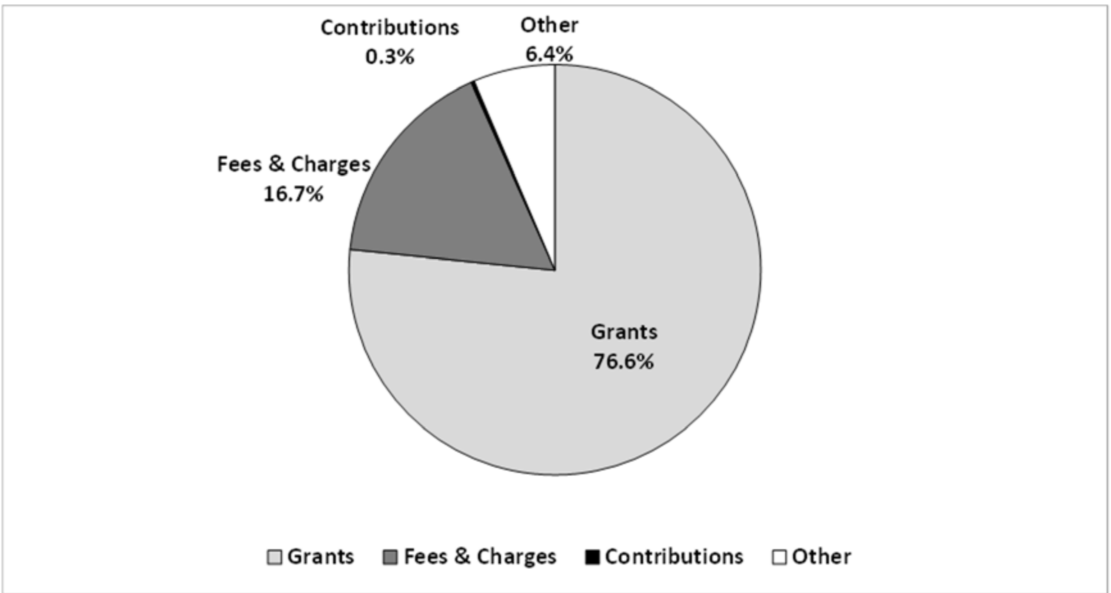
Figure 2 – 2017/18 Draft Net Revenue budget income sources



Gross Budget Income Sources

112. Figure 3 below shows the 2017/18 Gross revenue budget income sources (note this is mainly grant income and does not include RSG, Council Tax etc.)

Figure 3 – Estimated 2017/18 Gross budget income sources



Fees and Charges

113. For the majority of services there will be a 1% increase for 2017. Fees & Charges for 2017 were subject to a separate report which was approved by Council in November 2016.

114. New prices for Social Care Health & Housing are due to be taken to Council in February 2017, as changes take effect from April 2017 in line with benefits changes.

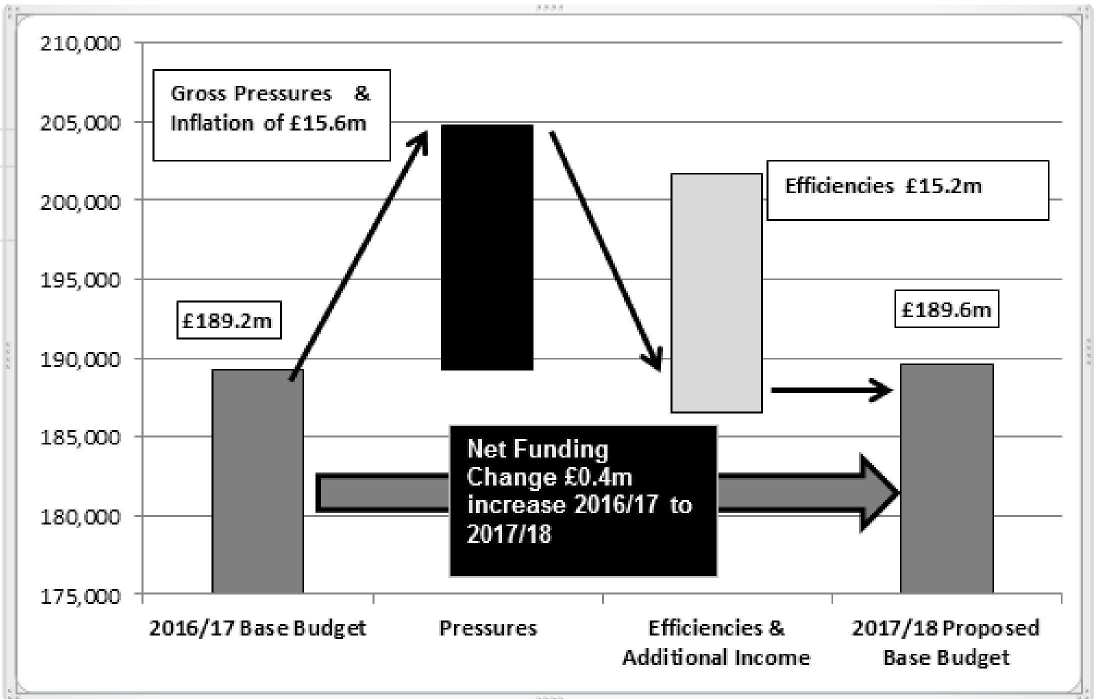
Grants

115. A detailed analysis of grant income will be provided as an appendix to the final budget report due to Council in February 2017.

Expenditure Budget Detail

116. Figure 4 below which excludes the Adult Social Care changes announced in the Provisional Local Government Financial Settlement reflects the change in Council's cost base.

Figure 4 Summary of changes to CBC's Net Expenditure Budget 2016/17 to 2017/18



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

117. The information in figure 4, above, is broken down by Directorate in table 4 below.

Table 4 2017/18 Net Expenditure Budget breakdown by Directorate

Medium Term Financial Plan	Net Base Expenditure Budget £m	Inflation £m	Unavoidable Cost Pressures £m	Efficiencies £m	Net Base Expenditure Budget 2017/18 £m
Social Care, Health & Housing	69.3	1.0	7.3	(4.1)	**73.5**
Children's Services	36.4	0.2	1.7	(2.3)	**36.0**
Community Services	47.4	0.9	0.7	(3.6)	**45.5**
Regeneration and Business Support	5.1	0.1	0.0	(0.6)	**4.6**
Public Health	0.0	0.0	1.0	(1.0)	**0.0**
Chief Executive's Team	7.4	0.1	0.4	(0.9)	**6.9**
Resources	11.7	0.1	0.3	(1.4)	**10.7**
Capital Financing Costs	13.9	0.0	0.7	0.0	**14.6**
Corporate Costs	(2.2)	0.0	1.1	(1.3)	**(2.4)**
Total	**189.1**	**2.4**	**13.2**	**(15.2)**	**189.5**

Efficiencies

118. £44.3M of the £46.5M of efficiencies during the period of the MTFP have been identified and in addition there are budget gaps of £3.9M between 2018/19 and 2020/21. The efficiencies are shown at Appendices D(i) and D(ii). A summary of these is shown below in Table 5 and Table 6.

119. Paragraph 18 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	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
A	Delivering operating efficiencies	(7.9)	(4.5)	(4.3)	(1.9)	**(18.7)**
B	Determining the Council's offer	(2.1)	(1.6)	(1.5)	(3.8)	**(9.0)**
C	Withdrawing services	(0.4)	(0.1)	(0.7)	0.0	**(1.3)**
D	Intervening early to reduce demand	(2.7)	(3.1)	(3.0)	(2.0)	**(10.9)**
E	Generating Income	(2.0)	(1.4)	(2.4)	(0.8)	**(6.6)**
Total		**(15.2)**	**(10.7)**	**(11.9)**	**(8.6)**	**(46.5)**

120. These are included within the Directorate efficiencies as detailed in Appendix D (ii).

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

Table 6 Efficiencies by Directorate 2017/18 to 2020/21

Efficiencies	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Social Care, Health & Housing :					
Identified	(4.1)	(3.7)	(5.0)	(3.0)	**(15.8)**
Yet to be identified	0.0	0.0	0.0	(2.2)	**(2.2)**
Children's Services	(2.3)	(1.7)	(2.0)	(1.8)	**(7.9)**
Community Services	(3.6)	(2.3)	(2.0)	(0.9)	**(8.8)**
Regeneration and Business Support	(0.6)	(0.2)	(0.4)	(0.2)	**(1.4)**
Public Health	(1.0)	(0.8)	(0.7)	(0.2)	**(2.8)**
Chief Executives Team	(0.9)	(0.3)	(0.2)	0.0	**(1.4)**
Resources	(1.4)	(0.7)	(0.5)	(0.1)	**(2.7)**
Corporate Costs	(1.3)	(1.1)	(1.1)	(0.1)	**(3.5)**
Total	**(15.2)**	**(10.7)**	**(11.9)**	**(8.6)**	**(46.6)**

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

Pressures

122. A full breakdown of cost pressures is provided at Appendix C with the major items relating to:

- Increased demand for care services from an ageing population £7.7M;
- Reduced reliance on NHB £6.9M;
- Increased demand for adult disability services £6.2M;
- Impact of legislative changes £5.0M;
- Potential impact of funding changes £4.3M;
- Financing costs of the Capital Programme £3.8M;
- Impact of the changes to Council responsibilities as part of 100% Retained NNDR £2.0M.

Table 7 Pressures by Directorate 2017/18 to 2020/21

Pressures	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Social Care, Health & Housing	7.3	4.3	4.4	5.3	**21.3**
Children's Services	1.7	0.6	0.0	0	**2.3**
Community Services	0.7	0.3	0	0.3	**1.3**
Regeneration and Business Support	0.0	0.0	0.0	0.0	**0.0**
Public Health	1.0	0.8	0.7	0.2	**2.8**
Chief Executives Team	0.4	0.0	0.0	0.0	**0.4**
Resources	0.3	0.2	0.2	0.0	**0.7**
Corporate Costs	1.8	1.8	8.1	12.9	**24.6**
Total	**13.2**	**8.0**	**13.5**	**18.7**	**53.4**

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

Reserves

123. 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 2016/17 indicates a General Fund reserve position of £15.5M and so the previously identified minimum prudent level of £11.2M has been achieved. Reserve levels need to take account of the continued reductions in funding levels and significant future pressures across all forms of social care services in particular.

124. 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 £2.1M.

125. The assessment of the appropriate level of reserves is continually kept under review. See appendix G.

Risk Management

126. 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:

- 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 in 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 £15.2M savings in 2017/18 and £46.5M 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 transferred to Local Government.

- Government announced changes to the National Living Wage commencing from April 2016. This will have significant implications for local authority costs and in particular, the care market. The Council has included estimated cost pressures in all years of the MTFP.

2017/18 Capital Programme

127. 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 2017/18 are reflected below.

Table 8 2017/18 Capital Programme Budget (Excluding HRA)

Gross Expenditure	External Funding	Net Expenditure
£m	**£m**	**£m**
68.9	(32.4)	36.5

Table 9 2017/18 Capital Programme Funding (Excluding HRA)

Funding Source	2017/18 £m
Gross Expenditure Budget	68.9
External Funding	(32.4)
Net Expenditure Budget	**36.5**
Funded by :	
Capital Receipts	(12.0)
Borrowing	(24.5)
Total Funding	**(36.5)**

Table 10 2017/18 Capital Programme Revenue Implications (Excluding HRA)

Minimum Revenue Provision	Interest	Total Revenue Implications
£m	£m	£m
9.0	5.6	**14.6**

128. 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
2017/18	**13.9**	(0.3)	1.0	0.7	**14.6**
2018/19	**14.6**	0.2	0.6	0.8	**15.4**
2019/20	**15.4**	0.7	0.5	1.2	**16.6**
2020/21	**16.6**	0.8	0.3	1.1	**17.7**

Note: the opening position is as per the 2016/17 MTFP.

129. 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

130. The key milestones in the timetable for Council to agree its budget in February 2017 are set out in Table 12 below:

Table 12 Timetable Milestones

Date	Body	Outcome
Early January 2017	Public	Draft Budget papers made available to Public and Public Consultation commences
10 January 2017	Executive	Considers Draft Budget
12 January 2017	Sustainable Communities Overview & Scrutiny	Consideration of efficiencies and savings and draft budget proposals
17 January 2017	Children's Services Overview & Scrutiny	
23 January 2017	Social Care, Health & Housing Overview & Scrutiny	

24 January 2017	Corporate Resources Overview & Scrutiny	
7 February 2017	Executive	Recommends Final Budget
23 February 2017	Council	Approves Budget
28 February 2017	Council	Reserve Council Meeting in case of delay in receiving notification of other precepts.

Next Steps

131. A period of public consultation will commence from 4 January 2017.

132. Overview and Scrutiny Committees will consider the draft budget proposals in their January 2017 cycle of meetings and comments will be included in the final Budget report to be presented to Council at its February 2017 meeting.

Corporate Implications

Legal Implications

133. The Local Government Finance Act 1992 stipulates that the Council must set an amount of council tax payable for the financial year 2017/18 by 11 March 2017. Before calculating the level of council tax payable, the Council must consult representatives of non-domestic ratepayers in its area.

134. 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 2nd August 2016.

135. 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.

136. Appendix F provides details of the statutory duties relating to specific budget proposals.

Risk

137. Covered in paragraph 126.

Financial Implications

138. The financial implications of the draft Budget 2017/18 and Medium Term Financial Plan are set out in the report.

Equalities Implications

139. Where appropriate, Equalities Impact Assessments will be carried out for proposals that impact on people or groups with protected characteristics.

Appendices

Appendix A - Budget Consultation (not required with the draft budget, but will accompany the final Budget Report in February).

Appendix B (i)	MTFP Four year Summary
Appendix B (ii)	Directorate Priorities
Appendix C(i)	Pressures Summary
Appendix C(ii)	Pressures by Directorate
Appendix D (i)	Efficiencies Summary
Appendix D (ii)	Efficiencies by Directorate
Appendix D (iii)	Efficiencies by Category
Appendix E	2017/18 Budget Diagram
Appendix F	Statutory Requirements of Budget Proposals
Appendix G	Reserves Policy

Background Papers

(i) Budget Strategy - Executive, August 2016