Central Bedfordshire Council

Executive **1 August 2017**

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

Report of Cllr Richard Wenham, Deputy Leader and Executive Member for Corporate Resources (richard.wenham@centralbedfordshire.gov.uk)

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This decision relates to a non-key decision.

Purpose of this report

1. This report starts the formal process that sets a framework for 2018/19 – 2021/22 Medium Term Financial Plan (MTFP) with updated planning assumptions. It also considers the impact of changes in Local Government financing and how these may be addressed, leading to the setting of a budget and Council Tax rate for 2018/19 in February 2018. The report also proposes the approach to consultation.

RECOMMENDATIONS:

The Executive is asked to:

1. endorse the proposed framework for the updating of the Medium Term Financial Plan 2018/19 – 2021/22 and the preparation of a Budget for 2018/19; and

2. approve the approach to consultation this year.

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

Overview and Scrutiny Comments/Recommendations

2. The Corporate Resources Overview and Scrutiny Committee considered the Budget Framework report at its 27 July meeting and outcomes will be fed back to the Executive.

Introduction

3. This report sets out the framework for updating of the MTFP, so that it covers the period to 2021/22, including setting the Council's 2018-19 Budget.

4. The process and timetable for updating the MTFP and preparing the budget up to its approval by Council on 22 February 2018 is also included in this report for consideration.

Policy

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

Background

6. The Budget for 2017/18, which was agreed by Council in February 2017, was set in an environment of tough economic conditions and the continuation of Government's public spending reductions. The MTFP was balanced for 2017/18 but identified a budget 'gap' (that is, a requirement for further savings as yet unspecified, in addition to those already identified) of £2.7M for 2018/19 and £1.8M over the following 2 years to 2020/21.

7. The MTFP will need to address this and the Council will be required to make further efforts to find savings through service efficiencies in order to avoid service reductions.

8. In the financial settlement for 2016/17, the Government announced the phasing out of the Revenue Support Grant (RSG) and provided a projection of the amount of support the Council will receive will receive in each year through to 2019/20. RSG in 2017/18 is £10.6M reducing to £4.7M in 2018/19 and it ceases completely for this Council in 2019/20.

9. Council Tax freeze Grant has also been subsumed into RSG and so is lost as a separate source of income.

10. The DfE also announced that the Education Services Grant would be reviewed with the aim of reducing this by £600M nationally. This Grant reduces substantially each year and is phased out entirely by 2019/20. A pressure of £1.5M has been built into the MTFP as follows: 2017/18 £0.875M, 2018/19 £0.625M.

11. The current Plan assumes a Council tax increase (for General Fund purposes) of 1.55% for 2018/19 and the following two years. This means there is limited scope to increase Council Tax any further (on the assumption that the Government continues to operate a cap of 2% increase without recourse to a public referendum) and so any significant increase in Council tax funding will need to be delivered through growth in the tax base (number of households). The Plan currently assumes that the Council tax base will increase by 1.85% per annum.

The Plan also assumes a 3% Social Care Precept in 2018/19, zero in 2019/20 and 2% in 2020/21. The figure for 2020/21 was an assumption and not formal Government policy, whereas the two earlier years match previous announcements.

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

12. In addition, the assumed income for National Non Domestic rates (NNDR, also referred to as Retained Business Rates) is already demanding and will need to be considered carefully at a time of considerable economic uncertainty which may impact on the growth plans of businesses.

Issues

13. The financial plan will address the following issues:

(a) the priorities of the Council and more specifically the outcomes it wants to achieve over the medium term under those priorities and the allocation of resources to deliver them;

(b) changes to the MTFP (revised economic, financial and demographic assumptions and facts) for the period 2018/19 to 2021/22

(c) the Revenue Budget for 2018-19, including the required level of General Fund reserves;

(d) the Capital Programme for 2018-19 through to 2021-22;

(e) the Housing Revenue Account budget (Landlord Business Plan) for 2017-18.

MTFP as per 2017/18 Budget Report

14. The Council agreed a MTFP on 23 February 2017 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for local authorities.

15. The key figures from this current MTFP are shown in the table below:

Medium Term Financial Plan	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Funding				
Revenue Support Grant (RSG)	10,599	4,683	0	0
Retained Business Rates	34,311	36,442	37,719	41,183
Council Tax	144,069	148,536	153,629	162,026
Use of / Contribution to Reserves	(682)	(635)	(1,500)	(1,882)
Transitional Funding	2,226	-	-	-
Adult Social Care Support Grant	869	-	-	-
Adult Social Care Reserve	(2,203)	(2,805)	-	-
Renewable Energy NNDR	391	395	399	403
Total Funding	**189,580**	**186,617**	**190,247**	**201,730**
Growth (%)		-1.59%	1.91%	5.69%
Planned Revenue Budget				
Base Revenue Budget Expenditure	378,266	378,473	375,426	379,693
Net Inflation	2,362	2,509	2,565	2,624
Pressures	13,221	7,975	13,519	18,713
Base Income	(189,075)	(188,893)	(188,809)	(189,446)
Total Planned Spending before savings	**204,773**	**200,065**	**202,701**	**211,584**
Growth before Savings (%)		-2.35%	1.30%	4.20%
Efficiency Savings	(15,194)	(10,732)	(11,882)	(8,644)
Efficiency Savings yet to be allocated	-	-	-	-
Total Planned spending after savings	**189,580**	**189,333**	**190,819**	**202,940**
Growth after Savings (%)		-0.13%	0.78%	5.97%
Budget Gap / (Surplus)	**0**	**2,716**	**571**	**1,210**

16. This Plan enables the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The level of General Fund Reserves at 31 March 2017 was £15.6M (subject to audit).

All of the above projections and in particular Retained Business Rates were based on assumptions that were current at that time and will need to be refreshed as part of this MTFP. The level of Revenue Support Grant for the next two years was set as part of last year's Settlement, and confirmed in the Government's 'Four Year Settlement "certainty" offer which the Council applied for and was granted. However, the Certainty offer only applied to RSG.

17. A minimum prudent level of reserves, based on assumptions contained in the agreed MTFP is a range between £11.5m and £25m. This takes into account the Council's expenditure levels, the increasing uncertainty and therefore risk profile and investment plans. The strategy for maintaining reserves is set out in paragraph 34 below and the minimum prudent level will be reviewed as part of the final budget setting process, to reflect changes such as 100% retention of business rates, the impact of the business rates revaluation in 2017 as this becomes clearer and the Better Care Fund and integration with the NHS.

The current economic uncertainty also means the Council may need to revisit what constitutes a "prudent" level of reserves.

Current Economic Outlook

18. The referendum vote to leave the European Union and subsequent political events has created significant economic uncertainty. It is difficult to assess what the implications will be for the United Kingdom as a whole and in particular the Public Sector.

19. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting in June 2017, the Committee voted to maintain Bank Rate at 0.25%. This will need to be carefully monitored as the MTFP progresses.

20. CPI inflation has risen above the MPC's 2% target as the depreciation of sterling has begun to feed through to consumer prices. This impact has been offset to some extent by continued subdued growth in domestic costs. In particular, wage growth has been notably weaker than expected. The MPC expects inflation to rise further above the target in the coming months, and it is expected to exceed 3% by Autumn 2017.

As at the end of May, the Inflation rate was 2.9% compared to 2.7% in April 2017.

21. The MPC has previously noted that there is a limit to the extent to which above-target inflation can be tolerated. The continuing suitability of the current policy stance depends on the trade-off between above-target inflation and slack in the economy, as well as the prospects for inflation to return sustainably to target.

These projections depend importantly on three main judgements: that the lower level of sterling continues to boost consumer prices broadly as projected and without adverse consequences for inflation expectations further ahead; that regular pay growth remains modest in the near term but picks up significantly over the forecast period; and that more subdued household spending growth is largely balanced by a pick-up in other components of demand.

22. The MTFP will need to assess the overall implications for the Council, based on the information available at the time that plans for the next four years are finalised.

Strategic and Directorate Plans

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

Areas of Focus

24. The MTFP built for 2017/18 – 2020/21 was a four year plan, based upon a holistic Council-wide strategy.

The key elements of this strategy 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.

That strategy still remains valid and so this year's MTFP will be a refresh of current plans rather than a bottom up re-build.

The MTFP will be extended to cover 2021/22. In keeping with the "refresh not re-build" approach, some broad assumptions will be made about the generation of additional funding through Council tax (both the rate and the growth in tax base) and how this might be allocated to meet the Council's aspirations. It is not intended that a detailed exercise will be carried out to identify pressures and efficiencies on an individual Directorate basis.

25. In addition to a full review of Pressures and Efficiencies for years 1-3 of the plan period, the MTFP will also focus on the following:

- Staff costs – across the Council. For 2018/19, there will be a bottom up build of staff budgets to align with current employees plus planned recruitment. The purpose is to support workforce development, assist in avoiding a siloed approach to budgeting and facilitate more intelligent conversations on staff turnover, recruitment activity and staffing issues generally.

- Learning Disabilities (end to end from Children's, Transitions, Adults). There will be a focus on how the Council improves outcomes, encourages more self sufficiency and reduces costs.

- Special Educational Needs (SEN) and SEN Transport. Understanding the costs, what drives the costs, how the Council improves outcomes, encourages more self sufficiency and what options exist to reduce costs further.

- The drivers of demand will be better quantified, for example, demographic pressures should identify estimates of the numbers of care packages, waste should estimate tonnage increases/decreases, etc.

- Improved use of benchmarking to identify potential efficiency opportunities.

Consultation and Communication

26. The planned consultation approach is as follows:

27. The Council has statutory responsibilities to consult local residents and stakeholders on its budget and Council tax implications.

28. The principles underpinning the strategy of the MTFP have been informed by extensive market research conducted with the community. This has confirmed that a commitment to continue to efficiency savings and a desire to protect front line services were preferred options.

29. Additionally, each year the Council enables the community to scrutinize and provide feedback on its updated MTFP. It collects and collates this feedback which is provided through a range of mechanisms including an on line survey and bespoke engagement events, for example with the business community.

30. A summary of feedback will be presented to Executive in February 2018 to support the process of formulating recommendations to Council.

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

32. Consultation on any individual proposals that result from the MTFP will follow the appropriate route as required and subsequent to the approval of the overall budget by full Council in February 2018.

Budget Assumptions

33. The current MTFP as agreed at Council in February 2017 includes a number of assumptions that will need to be reviewed and revised as appropriate for the new MTFP. The key factors are detailed in the paragraphs below. The Plan will also be extended a year to include projections for 2021-22.

34. The MTFP included an assumption that reserves would exceed the minimum prudent level at 31 March 2016 and that there will be no further material transfers to General Fund Reserves. General Fund Reserves stood at £15.6M at 31 March 2017 (subject to audit) and will be kept under constant review to ensure that there is adequate protection against adverse risks from economic, financial and other factors.

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

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

Table 2 – Current MTFP inflation assumptions (Average over the MTFP Period)

	2018-19 and future years
Employees:	
Pay	1.0%*
Increments	0.0%
NI	0.0%
Prices	2.3%
Contracts	2.3%
Income	2.3%

*This applies to pay generally, in addition we have made provision for the impact of the National Living Wage.

37. These (Consumer Price Index) inflation factors will be subject to review, including taking account into new economic data and supplier contract terms.

38. A number of known service pressures have been included in the MTFP, such as those arising from increased demand for care services and an ageing population, pensions strain and capital financing. The impact of any interest rate changes will be of particular concern. Other pressures will emerge as the budget process develops. This will in turn increase the level of savings required.

39. Government have held public sector pay increases to 1% for a number of years, however, there are signs that this might need to be increased as inflation is running above the Bank of England's target of 2% which results in a real terms cut in employees' spending power.

Capital Programme

40. The financing cost of the current Capital Programme puts a strain on the General Fund revenue budget. By the end of the current MTFP period (2020/21), based on the existing MTFP, the likely cost of capital financing will be c.£13.6M, which equates to 6.8% of the Council's total net revenue budget. This is a change to the figure reported at Council in the MTFP report but does reflect the changes made in the Treasury Management Strategy also approved at the February 2017 meeting. The MTFP at that time could not reflect the change until Council had approved the Strategy.

41. During this budget process, consideration will be given to the sustainability of the current planned levels of capital spend and every effort will be made to keep the Capital Programme affordable given the demographic and funding pressures that the Council faces.

Housing Revenue Account (HRA)

42. Following legislative changes taking effect on 1 April 2012, the Council now 'self finances' the Housing Revenue Account. Central Bedfordshire now retains all rental income from its housing stock, whilst in return, on 1 April 2012, the Council received an allocation of the national housing debt (£165M). The Current MTFP includes rental income of c£28M to £29M for each of the four years to 2020/21, fully offset by revenue and capital spending, debt repayment costs and transfers to Reserves. To date none of the debt has been repaid, although it is proposed to commence principle debt repayment in 2017/18.

43. The impact of the Housing and Planning Act 2016 will need to be closely monitored. The Right to Buy is to be extended to Housing Association tenants, potentially to give them the same level of discount offered to Council tenants. Currently this approach is being piloted, with costs for 2017/18 being financed by Government. The statute allows for local authorities to be charged in order to fund this policy, using a formula that assumes each Council will sell its higher value properties as they become void. However, councils will not be required to sell any properties and could fund the cost from surpluses or reserves. The formula, or details of any payments that will be due, has yet to be announced.

Financial Settlement – December 2016

44. The key issues arising from the Financial Settlement include:

45. Confirmation of the 2.00% Council Tax referendum principle for general fund purposes.

46. 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. The Council took the 3%, 3%, 0% option commencing 2017/18.

47. A reduction in Revenue Support Grant of £9.6M as identified in the 2016/17 Settlement and following the successful application by the Council for the Four Year Certainty Deal.

48. A reduction in the number of payment years for the New Homes Bonus (NHB) 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.

49. Possible consultation on further New Homes Bonus reforms in 2018-19.

50. Savings from NHB were allocated to local authorities as a £241M (national) £0.869M (CBC) Adult Social Care Support Grant based on the adult social care relative needs formula. This is one off funding in 2017/18.

51. Confirmation of the 2017/18 Transitional Funding advised last year.

52. Confirmation of the NNDR baseline for the Council.

Spring Budget - March 2017.

53. The Spring Budget announced in March 2017 also provide for additional one off funding for the purposes of Adult Social Care as follows:

54. £2 billion grant funding over the next three years with £1billion in 2017/18, £674M in 2018/19 and £337M in 2019/20.

    90% of the funding will be allocated based on the Improved Better Care Fund (iBCF) formula with the remaining 10% according to the Adult Social Care Relative Needs Formula.

55. The funding pooled in the iBCF but will be for councils to spend on unmet pressures on older people and stabilising the care market. The Government also advised the sign off requirements for Section 151 Officers to confirm how the money has been spent.

56. For this Council the allocation is as follows:

    2017/18 £1.8M
    2018/19 £2.0M
    2019/20 £1.2M

57. This announcement was after Council had approved the MTFP on the 23rd February 2017. The money was initially placed in a reserve but will be allocated to social care priorities.

Budget Process – Revenue & Capital

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

59. Budgets will be built up during July to the end of August. This will include a full assessment of pressures and efficiencies as well as the key areas of focus (see paragraph 25) which will then be the subject of formal review at Overview and Scrutiny meetings during January 2018. Following this process there will be further adjustments as required, leading to the preparation of a Final Budget Report with a balanced budget. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.

60. Directorates will refresh their strategies for the next 4 years as part of the MTFP.

61. If existing pressures increase or efficiencies can no longer be delivered, compensatory efficiencies need to be found. New pressures and efficiencies should be reviewed and again Directorates must meet their existing budgets.

62. Directorate strategies will include a rigorous review of the current Capital Programme which will be updated to include 2021/22.

63. In summary, the recommended process is:

- 1. Review existing pressures and efficiencies.
- 2. Review new emerging pressures and efficiencies and key areas of focus.
- 3. Directorate budget reviews including the key areas of focus identified in paragraph 25 (late September/early October).
- 4. Consolidation (mid/late October).

64. The baseline for the 2018/19 Budget will be the 2017/18 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

Budget Process – Fees & Charges

65. For the 2018/19 budget process, Council approval to Fees & Charges price increases will be sought in November 2017.

66. Most Fees & Charges prices will change on the 1 January 2018.

67. Some Fees & Charges and also Schools Trading will be considered at the February Executive and Council for those services subject to an increase from April 2018.

CORPORATE IMPLICATIONS

Council Priorities:

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

68. **Financial:**

The planning process will identify the financial risks and opportunities.

Legal:

69. The Council is required to set a balanced budget and to undertake consultation on its proposals. It must also consider the legislation relating to the provision of services that are subject to efficiency proposals.

See also the Equalities and Human Rights section below.

Risk Management:

70. The Council reviews risks on a regular basis and tracks both Strategic and Operational risks along with appropriate mitigation. This is reported to the Audit Committee through the Corporate Risk Register.

In addition, the Annual Governance Statement identifies a number of significant governance issues and, where appropriate, these have been identified in the Council's Corporate Risk Register, together with mitigating action to reduce the level of the risk.

In terms of recent financial risks, the implications of the referendum to leave the European Union will have far reaching consequences which will have to be closely monitored. Both risks and opportunities will result and so the planning process will need to carefully assess these.

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

Staffing (including Trades Unions):

71. None arising directly from this report.

Equalities/Human Rights:

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

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

Overview and Scrutiny:

73. This report was be considered by the Corporate Resources OSC at their meeting on 27 July 2017. Verbal feedback from that meeting will be provided to Executive.

Timetable

74. The key milestones for setting the 2018/19 budget are:

Review of Pressures & Efficiencies	July – August 2017
Budget Framework Report to Corporate Resources Overview & Scrutiny Committee	27 July 2017
Budget Framework Report to Executive	1 August 2017
Directorate Budget Reviews	19 September 2017 – 5 October 2017
Settlement (estimate)	14 – 15 December 2017
Budget consultation	January 2018 - February 2018
Draft MTFP to Executive	9 January 2018
Draft MTFP to Corporate Resources OSC	25 January 2018
Final MTFP to Executive	6 February 2018
Final MTFP to Council	22 February 2018

Background Papers: None