Central Bedfordshire Council

EXECUTIVE 6 February 2018

Budget 2018/19 and Medium Term Financial Plan

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

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This report relates to a non-Key Decision

Purpose of this report

1. The report proposes the Budget for 2018/19 and updates the Medium Term Financial Plan (MTFP) approved by Council in February 2017.

RECOMMENDATIONS

The Executive is recommended to:

1. **note the response to consultation with Overview & Scrutiny as set out in Appendix J (to follow) and the response to consultation withthe public and stakeholders as set out in Appendix A(i) (to follow);**

2. **recommend to Council the Revenue Budget for 2018/19 and the Medium Term Financial Plan for 2018/19 to 2021/22;**

3. **note that the final Financial Settlement has not been issued at the time of finalising this report (expected early February 2018). Although no significant changes are anticipated the Executive is asked to give delegated authority to the Leader, Deputy Leader, Chief Executive and s151 Officer to make any necessary amendments to the budget in the event of changes resulting from the final Financial Settlement;**

4. **note the Council Tax Base as set out in Appendix H;**

5. **recommend to Council, in line with Government guidance, the following increases in council tax (CBC element) for residents of Central Bedfordshire:**

   a) **a Band D increase of £21.24, representing a 1.494% increase on the charge for 2017/18 and**

b) **a Band D increase of £42.66, representing a 3.0% increase on the charge for 2017/18, reflecting a precept of this amount to help fund adult social care costs**

In total the Band D increase will be £63.90, representing a 4.494% increase on the charge for 2017/18. The CBC element of Band D Council Tax for 2018/19 will therefore be £1,485.78.

6. **note that certain efficiency proposals identified in Appendix D(ii) will be subject to formal consultation and Equality Impact Assessment in the coming months and instruct the Corporate Management Team to propose alternative compensatory savings if it appears, following a review of the outcome of the consultation and Equality Impact Assessment, that any specific proposal cannot be delivered.**

Overview and Scrutiny Comments/Recommendations

2. The Corporate Resources Overview and Scrutiny Committee considered the budget and MTFP proposals at its meeting on 25 January 2018 and comments are included in the Budget report at Appendix J.

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.

4. This Plan is set against a background of significant new burdens impacting on the Council's costs as a result of Government policy or legislation. These include:

- Removing Revenue Support Grant (RSG) entirely (impact £4.7M in 2018/19).
- Negative RSG impacting on Non Domestic Rates (Impact £1.3M in 2019/20).
- Reductions to the Public Health Grant (£0.3M in 2018/19).
- Additional pay award and National Living Wage (£1.2M in 2018/19 (£2.5M over the MTFP).
- Extended rights to travel (transporting students from low income families to school - £0.3M in 2018/19).
- Impact of the Homelessness Act (full extent as yet unknown).

5. As a result of these changes, and the potential for further adjustments in Government policy which could impose yet more unfunded costs on the Council, it is prudent to seek £5M of additional efficiencies in the medium term over and above the operational efficiencies identified in this report.

6. During last year's Financial Settlement, the Government made the assumption in its financial modelling that councils will raise Council Tax by both a minimum of 2% earmarked specifically for adult social care and an assumed 1.75% for inflation in 2018/19.

7. Last years 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.

8. The 2020/21 MTFP continues to reflect that assumption (3.0% adult social care precept).

9. This years Provisional Financial Settlement gives local authorities the power to increase Council tax by up to 3% with a referendum for 2018/19. CBC is proposing an increase of 1.494% for General Fund Council Tax.

10. At the time of issuing this report, Government have not yet issued the final Financial Settlement (expected early February). It is not expected that there will be any significant changes.

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

12. The Budget for 2018/19 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. £13.8M of efficiencies are identified for 2018/19 before any contribution to the additional £5M referred to in paragraph 5 above.

13. The Capital Programme is included elsewhere on the Agenda. However, the revenue implications of the Capital Programme are reflected in the proposals contained in this report.

14. A separate report in respect of the Housing Revenue Account (Landlord Services Business Plan) is also presented to this Executive.

Reasons for decision

15. To enable Council to approve the budget for 2018/19 and the MTFP for 2018/19 to 2021/22.

Council Priorities

16. The Council approved the Medium Term Financial Plan (MTFP) for 2017/18 to 2020/21 in February 2017. The MTFP has been updated and extended to 2021/22 and a budget for 2018/19 prepared, reflecting new cost pressures and offsetting efficiencies.

17. 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

18. In February 2017 the Council approved the 2017/18 Budget and Medium Term Financial Plan to 2020/21.

19. Two years ago, 2016/17, was the first time 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.

20. Prior to that, over the past seven years, 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.

21. As part of the MTFP process for 2017/18 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 2018/19 MTFP.

22. The strategy upon which the Council's MTFP is based comprises the following elements;

- 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 preventative 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.

Budget Strategy Review Process

23. The Budget Strategy Review Process for 2018/19 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.

24. A number of financial challenges and opportunities have emerged during 2017/18 which required a particular focus in the MTFP to mitigate growing pressures and to stabilise costs and service provision. These included:

Homelessness

25. 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.

26. 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

27. The number of people (both Children and Adults) diagnosed with learning disabilities is increasing significantly. The range of disabilities is broad and different responses are required for different conditions.

28. 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

29. 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.

30. Costs are being 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).

31. The Council is also looking at methods of incentivising parents to make alternative transport arrangements, for example, personal travel plans and budgets.

An integrated Approach to Families requiring Council Support

32. The Council is developing a pilot to look at families that require a lot of Council (and partners') support in order to see if a more integrated approach to dealing with the issues that present themselves could deliver better outcomes for those families, whilst reducing the need for Council intervention. This approach is still in the early planning phase and so the MTFP does not reflect any additional efficiencies at this stage.

Digitisation

33. Digitisation provides the Council with a number of opportunities to both improve services though customer self service or process improvement whilst reducing transactional costs.

34. 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.
- Further roll out of Success Factors (the Council's Employee Self Serve system).
- Replacing or upgrading the Council's Adult Social Care system (SWIFT).
- Replacing Acolaid, the Council's (Case Management) system.
- Further rolling out STORM (the Council's Call Management system) to support channel shift.

35. These system enhancements are, where necessary, funded within the Capital Programme and will deliver significant efficiencies.

36. The outcome of these areas of focus has been reflected in the budget efficiencies shown at Appendix D(ii).

37. 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 & efficiencies. Focus was on the major challenges and opportunities facing the Council over the four years to 2021/22.

38. The Capital Programme was also built up thematically. More detail is contained in the Capital Programme, also on the same agenda, but in summary, those themes are:

- Replacing and renewing operational assets
- Investing to save through managing demand or generating income
- Capturing the benefits of growth
- Protecting and enhancing Central Bedfordshire
- Responding to new opportunities

Budget Context

Political

39. 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.

40. 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.

41. 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.

Autumn Budget 2017

42. On 22 November 2017 the Chancellor of the Exchequer, Philip Hammond MP, announced the Autumn Budget 2017. This was the first Autumn budget. The key issues that were covered in the Autumn Statement include;

43. National Productivity Investment Fund (NPIF) – The 2016 Autumn Statement established the National Productivity Investment Fund to provide over £23bn of high-value investment between 2017-18 and 2021-22. The NPIF is to be invested in Digital Infrastructure, Full-fibre broadband, 5G, Transport, Research and Development (R&D), Industrial Strategy Challenge Fund, Talent Funding, and Global Research Talent. The 2017 Spring Budget announced that the NPIF included £690M of local transport funding.

44. The 2017 Autumn Budget announced the expansion of the NPIF to support innovation, upgrade the UK's infrastructure and to underpin the government's modern Industrial Strategy. The NPIF will last an additional year and total over £31bn. Plans to boost productivity were announced including: a new transforming cities fund (£1.7bn), R&D support (£2.3bn), unlocking over £20bn of capital, developing standards and ethics for the use of data and Artificial Intelligence, creating advanced regulatory framework for driverless cars and partnering with industry and trade unions to deliver a National Retraining Scheme as well as encouraging the study of STEM subjects (Science, Technology, Engineering and Mathematics).

Table 1

NPIF Forecasts	2017-18	2018-19	2019-20	2020-21
Accelerated Construction	£90m	£230m	£170m	£200m
Affordable Housing	£495m	£605m	£1215m	£610m
Housing Infrastructure Fund	£60m	£300m	£1.160bn	£2.135bn
Small sites infrastructure and remediation	£0m	£275m	£355m	£120m
Land Assembly Fund	£0m	£0m	£220m	£355m
Roads and local transport	£365m	£360m	£290m	£415m
Next generation vehicles	£75m	£145m	£155m	£115m
Digital railway enhancements	£30m	£55m	£165m	£285m
Cambridge - Milton Keynes -	£5m	£135m	£0m	£0m

NPIF Forecasts	2017-18	2018-19	2019-20	2020-21
Oxford corridor				
Transforming Cities Fund	£0m	£140m	£355m	£485m
Tyne & Wear Metro	£0m	£0m	£25m	£35m
Fibre and 5G investment	£25m	£150m	£275m	£290m
Research and Development funding	£425m	£820m	£1.5bn	£2bn
Total	**£1.570bn**	**£3.215bn**	**£5.885bn**	**£7.045bn**

45. Public Sector Pay – In September 2017 the Government announced its intention to move away from the 1% basic public sector pay award policy. In December, councils were advised that the pay offer for 2018/19 and 2019/20 would broadly be a 2% increase (slightly different approaches for different pay scale spinal points but averaging just over 2%). This has been reflected in the MTFP as an additional pressure of £1M but as yet the pay offer has still to be accepted. No funding from Government has yet been announced to cover this additional burden.

46. National Living Wage and National Minimum Wage – NLW will rise by 4.4% from £7.50 per hour to £7.83 from April 2018. The National Minimum Wage rates will be increased to £7.38 for 21-24 year olds, £5.90 for 18 to 20 year olds, £4.20 for 16-17 year olds and £3.70 for apprentices, an increase of 4.7%, 5.4%, 3.7% and 5.7% respectively.

47. Uprating of Business Rates – The business rates multiplier (the tax rate) is increased each April in line with inflation. The figure used is the Retail Price Index (RPI) from the preceding September. Plans, originally announced in Budget 2016, were confirmed to switch in April 2018 to CPI rather than RPI. Local government will be fully compensated for the loss of income as a result of these measures.

48. Changes to the Revaluation Process – Following the next revaluation process (currently due in 2022), revaluations will take place every three years (currently every five years). This follows a consultation announced at the 2017 Spring Budget. To enable this, ratepayers will be required to provide regular information to the VOA (in full) on who is responsible for business rates and property characteristics including use and rent. The government will consult on the implementation of these changes in the spring. Local government will be fully compensated for the loss of income as a result of these measures.

49. Housing Revenue Account borrowing caps - The Government will lift caps for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1bn by the end of 2021-22. The Government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.

50. No detail on what constitutes high affordability has been provided as yet.

Provisional Financial Settlement December 2017

51. The main issues announced in the Provisional Financial Settlement on the 19th December 2017 include:

- Increased council tax referendum principle from 2% to 3% for 2018-19 and 2019-20.

- Confirmation of the continuation of the Adult Social Care precept including the additional flexibility to raise the precept to 3% in 2018/19 but by no more than 6% over the 2017-18 to 2019-20 period.

- Announcement of the Government's "aim" to localise 75% of business rates from 2020-21 and implementation of the new needs assessment.

- Consultation in the Spring on "fair and affordable options" to tackle negative RSG in 2019-20.

- In addition to those already announced; ten 100% business rates retention pilots have been accepted for 2018/19.

- No further Transition Grant.

- £946M paid in New Homes Bonus. Further reduction in the number of payment years from 5 years in 2017-18 to 4 years in 2018-19. NHB will continue to be paid on housing growth above 0.4% (0.4% in 2017-18). No further changes, as consulted on, in 2018-19.

- Savings from the New Homes Bonus in 2017-18 were allocated to local authorities as the £241M Adult Social Care Support Grant. Nothing announced for the 2018-19 savings.

- Continuation of capital receipts flexibilities for a further 3 years.

Social

52. 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 19.4% since the 2001 census and a further 7.2% increase is forecast between 2016 and 2021.

- The rate of population growth is expected to be much higher for older people, with an expected growth rate of 13% for those aged 65-85 and 22% for those aged 85+ between 2016 and 2021.

- 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.

Budget Objectives

53. The principal objectives of the 2018/19 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.

<u>Economic Outlook</u>

Consumer Price Index (CPI) Inflation

54. The November 2017 Quarterly Inflation Report issued by the Bank of England advised that CPI inflation is currently at 3.1%.

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

56. Others see a different picture. The National Institute for Economic and Social Research said it expected CPI inflation to peak at 3.2% in Q4 2017 before easing back to 2% in the second half of 2019.

Economic Growth and Unemployment

57. The Bank’s prediction for economic growth as measured by Gross Domestic Product (GDP) in 2018 is 1.75% compared to 0.4% in Q3 2017 (note the Autumn Budget cites growth of 1.4% for 2018 and 1.3% for 2019).

58. Unemployment is expected to remain low and is currently at 4.3% nationally (June to August 2017 figures).

Interest Rate Implications

59. The Bank of England Monetary Policy Committee voted by 7-2 on the 1st November 2017 to increase base interest rates from 0.25% to 0.5% but advised that any future increases in interest rates would be at a gradual pace and to a limited extent.

60. The Council's treasury management advisers, Arlingclose Ltd, also expect interest rates to remain low for the foreseeable future.

61. Since inception, the Council, (excluding HRA 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 Central 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 2017, the Council had borrowed £159.3M 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.

62. 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 low interest rates. Council borrowing has traditionally been obtained from the PWLB for longer periods. However in the current market, public authorities are lending to each other at rates below the PWLB rate 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 Capital Programme over the previous MTFP 2017/18 to 2020/21 period.

63. 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 2 below demonstrates the impact on the MTFP of interest rates above those assumed in the Plan.

64. **Table 2 – 2018/19 to 2021/22 additional costs over the MTFP period of an unexpected increase in the Interest**

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
1% point higher	940	1,520	1,580	1,710
2% points higher	1,880	3,040	3,160	3,420

65. 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 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.

66. 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 0.50% over the next three years.

67. The Council's MTFP assumes variable interest rate forecasts as follows in table 3:

Table 3

	2018/19	**2019/20**	**2020/21**	**2021/22**
Rate %	0.75%	0.75%	0.75%	0.88%

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

69. The Council reviews and approves annually its Treasury Management Strategy 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, medium term fixed interest rates are higher than variable rates and any decision to fix debt in the short term would adversely impact revenue implications within the MTFP.

Budget 2017/18 Consultation

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

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

72. This consultation was launched in early January 2018 and comprised online and paper questionnaires, promoted to residents through a mixture of social and conventional media initiatives. Key stakeholder groups were also targeted for promotion, including Town and Parish Councils, the Council's Equality Forum, Youth Parliament, the business community and Older Person's Forum.

73. Following the conclusion of the budget process for 2018/19, 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 2018.

74. The consultation process and timeline was as follows:

75. Budget Consultation:

- Consultation took place during January 2018.

- Feedback was invited via an online survey, hard copies of which were also made available in service outlets and promoted through a range of media outlets and channels.

76. A plan for consultation with businesses was also drawn up which included;

- 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.

77. Full results will be presented to 6 February 2018 Executive at Appendix A(i).

78. 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.

2017/18 Forecast Outturn

79. Based on the current forecast, this Budget assumes 2017/18 outturn will be on budget.

Funding

80. 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.

- RSG is confirmed at £4.7M in 2018/19, a reduction of £5.9M on 2017/18, and zero thereafter.

- The national proposals concerning the 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 yet clear. As part of the Provisional Financial Settlement, Government announced an aim to move to a 75% retention system by 2021.

81. Council Tax

- During the 2015 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 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.

- The Council Tax base for 2017/18 has grown by 1.88% 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 currently 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 £148.6M in 2018/19 to £163.1M in 2021/22.

- The Autumn 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).

- Central Bedfordshire will look to implement this as soon as the legislation will allow. This is currently expected to impact from April 2019.

82. 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: £1.8M in 2018/19, £4.1M in 2019/20, £3.4M in 2020/21 and £2.9M in 2021/22 has been included in the MTFP.

- The Business Rates figure in 2018/19 is reduced as a result of a Collection Fund deficit (£0.944M), which because it is one off, reverses in 2019/20 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.

- The Budget includes the following amounts of Section 31 Grant: £1.7M in 2018/19, £2.3M in 2019/20 and £2.5M thereafter.

Business Rates Review/Fairer Funding

83. 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 2017/18 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 2018/19. For the remaining three years an element of growth has been added, based on modelling work of future developments.

84. As mentioned previously, 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.

The timing of the introduction of changes resulting from this review and the detail of how it will work is still not known as yet, but is likely to be at the end of this MTFP period, c.2020/21.

85. The Fair Funding Review will set new funding baselines for every authority alongside the introduction of a 75% business rate retention system in 2021. It will not consider the overall quantum of funding available for local government which is a matter for the Spending Review.

86. The Review will design a needs assessment methodology in support of these wider reforms, replacing the current approach which was designed over 10 years ago and has not been updated since 2013. Since then there has been demographic and other changes. The Review will consider how the relative needs and resources of local authorities should be assessed in a world where local government spending is driven by local resources, not central grant, looking again at the factors that drive costs.

87. The Review will produce solutions that are sustainable for the duration of a reset period ("future-proofed") for every council. It will also define appropriate transitional arrangements. It will focus initially on the services currently funded through the Financial Settlement, considering grants such as the Public Health Grant on a case-by-case basis.

2017 Business Rates Revaluation

88. 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.

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

New Homes Bonus (NHB)

90. There is still uncertainty about the future of the NHB scheme.

- Last year DCLG 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 current six year payment mechanism would reduce to five years for 2017/18 and then to four years 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.

- 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).

- NHB is not new or additional funding. The removal of RSG for CBC was based on DCLG'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.

- In anticipation of further changes to NHB funding, the revised MTFP assumes NHB at £6.9M for 2018/19, £6.15M in 2019/20, £3.85M in 2020/21 and then zero from 2021/22.

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

- The NHB reserve will be used to help fund the Integrated Health & Care Hubs contained in the Capital Programme.

Expenditure

91. Economic

- For 2018/19, 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 (3.1% in both 2019/20 and 2020/21 and 3.2% 2021/22).

- Pay is assumed at 2.0% for 2018/19 (£1.9M) and 2019/20 and 1.0% thereafter.

- The additional impact of the National Living Wage (NLW) for Council employees is £110K in 2018/19, £130K in 2019/20, £57K in 2020/21 and £53K in 2021/22.

Table 4 – Impact on Pay

	2018/19		2019/20		2020/21		2021/22	
	£'000	% of Pay budget	£'000	% of Pay budget	£'000	% of Pay budget	£'000	% of Pay budget
Public Sector Pay Award	1,891	2.1%	1,928	2.1%	908	1.0%	917	1.0%
National Living Wage	110	0.1%	130	0.1%	57	0.1%	53	0.1%

92. Financial

- General Fund Reserves remain at the 2017/18 level of £15.6M.

- A detailed analysis of reserves is at Appendix G.

- A number of earmarked reserves are used to support the early years in particular of the MTFP. All use of reserves have been reversed back out over the life of the Plan. Their use is in recognition of the lead in time for some efficiencies. However, it is not sustainable to rely on reserves as a source of longer term funding, hence the Plan reverses these over the medium term. See Table 2 in Appendix G for details.

93. Contingency

- The contingency within the budget for 2018/19 is £2.6M. 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)

94. 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.

95. 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 £0.618M in 2018/19.

96. 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 (iBCF) from local care and health budgets demonstrates that local areas are ambitious about integration.

Education Services Grant (ESG)

97. In the November 2015 spending review, the Government announced that although the core school budget would be protected in real terms and that per pupil funding levels/ pupil premium would be protected in cash terms, further savings of £600M nationally would be made from

the Education Services Grant (ESG). The impact for this Council was a loss of £1.5M. As a result, a pressure of £0.875M was reflected in the 2017/18 MTFP, with a flow through pressure of £0.625M in 2018/19 to reflect the full year loss of funding (the grant covered the academic year rather than fiscal year).

Public Health

98. 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.

99. The amount of grant assumed for 2018/19 is £12.264M, a 2.6% reduction on 2017/18.

Medium Term Financial Plan (MTFP)

100. The key elements of the MTFP for 2018/19 to 2021/22 are shown at Appendix B. Table 5 shows a summary of this plan.

Table 5 Medium Term Financial Plan

Medium Term Financial Plan	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Funding				
Revenue Support Grant	4.7	0.0	0.0	0.0
Retained Business Rates	36.1	40.6	43.5	50.2
Council Tax	148.6	151.3	157.1	163.1
Use of / Contribution to Reserves	0	(1.5)	(1.9)	(0.6)
Transitional Funding	0.0	0.0	0.0	0.0
Renewable Energy NNDR	0.4	0.4	0.4	0.4
Total Funding	**189.8**	**190.8**	**199.1**	**213.1**
Revenue Budget				
Opening Base Net Revenue Budget	189.6	189.8	190.6	199.3
Inflation	3.9	4.0	3.0	3.1
Pressures	10.1	11.1	17.3	19.3
Revenue Budget before efficiencies	**203.6**	**204.9**	**211.0**	**221.8**
Efficiency Savings identified	(13.8)	(14.3)	(11.6)	(6.2)
Closure of prior year gap	0.0	0.0	0	(0.2)
Total Revenue Budget after efficiencies	**189.8**	**190.6**	**199.3**	**215.3**
Budget Gap/ (Surplus)	**0.0**	**(0.2)**	**0.2**	**2.2**

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

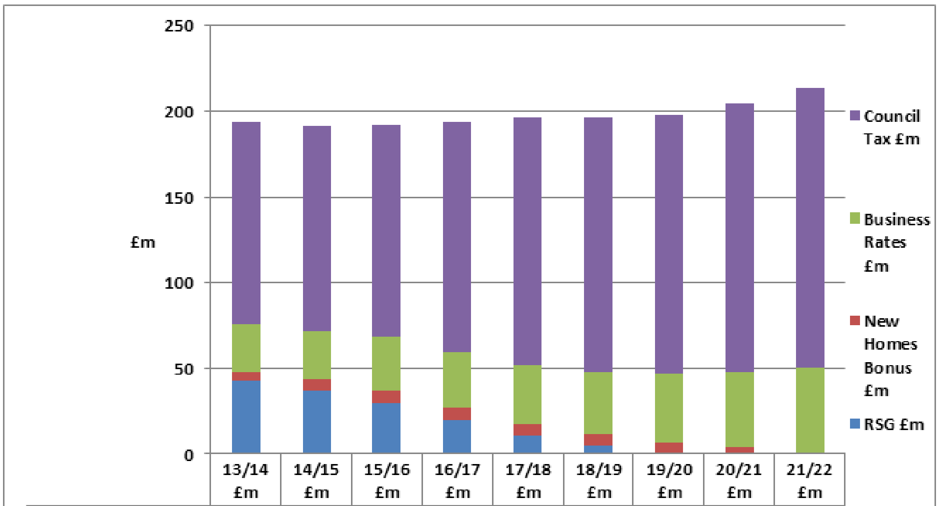
Funding Sources

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

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

102. Figure 1 below shows how funding sources are forecast to change over the MTFP period, with 2013/14 to 2017/18 as comparators.

Figure 1 – CBC Revenue Budget funding sources projection



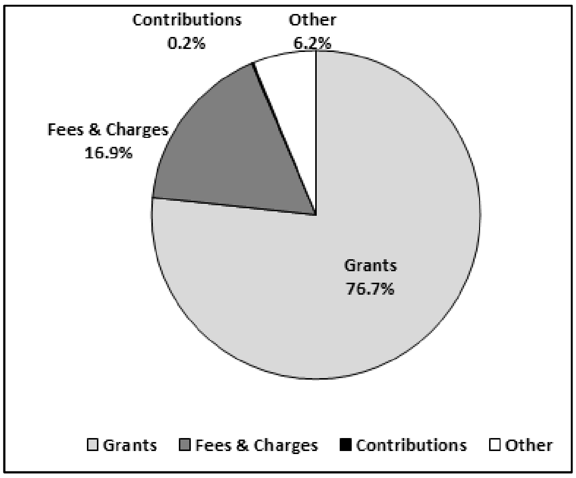
	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m
Council Tax £m	118	120	123	135	144	149	151	157	163
Business Rates £m	28	28	32	32	34	36	41	44	50
New Homes Bonus £m	5	7	7	7	7	7	6	4	0
RSG £m	43	37	30	20	11	5	0	0	0

- The Council Tax element increases from approximately 76% of total funding in 2018/19 to 77% by 2021/22.
- Business Rates Retention increases from 18% in 2018/19 to 23% in 2021/22.
- New Homes Bonus reduces from 4% in 2018/19 to zero by 2021/22.
- Revenue Support Grant decreases from 3% in 2018/19 to zero in 2019/20.

Gross Budget Income Sources

103. Figure 2 below shows the 2018/19 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

104. For the majority of services there will be a 2.9% increase for 2018 in line with the RPI for September 2017. Fees & Charges for 2018 were subject to a separate report which was approved by Council in November 2017.

105. New prices for Social Care Health & Housing are due to be taken to Council in February 2018, as changes take effect from April 2018 in line with benefit changes.

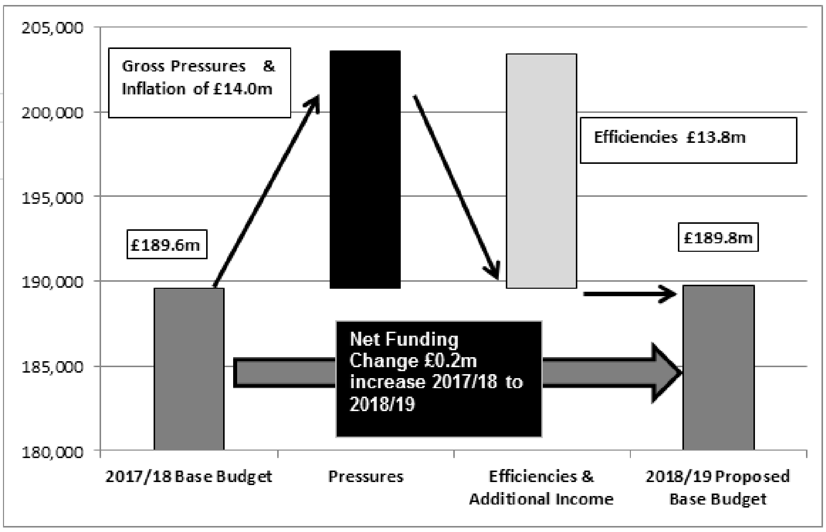
Grants

106. A detailed analysis of grant income is provided at Appendix I.

Expenditure Budget Detail

107. Figure 3 below reflects the change in Council's cost base.

Figure 3 Summary of changes to Central Bedfordshire Council's Net Expenditure Budget 2017/18 to 2018/19.



(Notes – Any minor rounding differences are due to linking to detailed spreadsheets. The proposed base budget for 2018/19 as shown above assumes that the gap shown in Table 3 is closed)

108. The information in figure 3, above, is broken down by Directorate in Table 6 below.

Table 6 2018/19 Net Expenditure Budget breakdown by Directorate

Medium Term Financial Plan	Expenditure Budget 2017/18 £m	Inflation £m	Unavoidable Cost Pressures £m	Efficiencies £m	Net Base Expenditure Budget 2018/19 £m
Social Care, Health & Housing	72.8	1.5	6.9	(6.0)	**75.3**
Children's Services	36.4	0.4	2.2	(2.7)	**36.4**
Community Services	49.9	1.8	2.4	(3.2)	**50.9**
Regeneration and Business Support	5.4	0.2	0.1	(0.4)	**5.3**
Public Health	0.0	0.0	0.6	(0.6)	**0.1**
Chief Executive's Team	1.3	0.0	0.0	(0.2)	**1.2**
Resources	11.5	0.3	0.4	(1.2)	**11.0**
Capital Financing Costs	14.6	0.0	(4.3)	0.0	**10.3**
Corporate Costs	(2.6)	(0.4)	1.8	0.5	**(0.7)**
Total	**189.6**	**3.9**	**10.1**	**(13.8)**	**189.8**

109. All of the £45.9M 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 7 and Table 8.

110. Paragraph 22 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 7 below groups the efficiencies by these themes.

Table 7 Medium Term Financial Plan Efficiencies by Category

Ref	Category	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total £000s
A	Delivering operating efficiencies	(8,225)	(7,816)	(3,668)	(963)	**(20,672)**
B	Determining the Council's offer	(1,459)	(1,546)	(2,741)	(875)	**(6,621)**
C	Withdrawing services	116	-	-	(578)	**(462)**
D	Intervening early to reduce demand	(2,518)	(2,191)	(2,534)	(2,258)	**(9,501)**
E	Generating Income	(1,831)	(2,716)	(2,288)	(1,180)	**(8,015)**
F	Unachievable efficiencies	-	-	(393)	(375)	**(768)**
G	New efficiencies identified	100	-	-	-	**100**
Total		**(13,817)**	**(14,269)**	**(11,624)**	**(6,229)**	**(45,939)**

111. Table 8 below shows the breakdown of allocated efficiencies by Directorate.

Table 8 Efficiencies by Directorate 2018/19 to 2021/22

Efficiencies	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Social Care, Health & Housing	(6.0)	(5.7)	(3.8)	(3.4)	**(18.9)**
Children's Services	(2.7)	(0.4)	(0.8)	(0.4)	**(4.2)**
Community Services	(3.2)	(4.6)	(3.5)	(1.5)	**(12.9)**
Regeneration and Business Support	(0.4)	(0.4)	(0.2)	0.0	**(1.1)**
Public Health	(0.6)	(0.1)	(0.1)	(0.9)	**(1.7)**
Chief Executives Team	(0.2)	0.0	0.0	0.0	**(0.2)**
Resources	(1.2)	(0.3)	(0.3)	(0.1)	**(1.8)**
Corporate Costs	0.5	(2.7)	(3.0)	0.0	**(5.2)**
Total	**(13.8)**	**(14.3)**	**(11.6)**	**(6.2)**	**(45.9)**

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

Pressures

112. 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 £8.1M;
- Reduced reliance on NHB £6.9M;
- Increased demand for adult disability services £7.6M;
- Impact of legislative changes £4.6M;
- Potential impact of funding changes £4.3M;
- Financing costs of the Capital Programme £3.5M;
- Impact of the changes to Council responsibilities as part of 100% Retained NNDR £1.6M.

Table 9 Pressures by Directorate 2018/19 to 2021/22

Pressures	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Social Care, Health & Housing	6.9	5.0	5.2	5.6	**22.6**
Children's Services	2.2	0.0	(0.2)	(0.2)	**1.7**
Community Services	2.4	1.1	(0.3)	(0.2)	**3.1**
Regeneration and Business Support	0.1	0.0	0.0	0.0	**0.1**
Public Health	0.6	0.1	0.1	0.9	**1.7**
Chief Executives Team	0.0	0.0	0.0	0.0	**0.0**
Resources	0.4	0.0	0.2	0.1	**0.7**
Corporate Costs	(2.5)	4.9	12.5	13.2	**28.0**
Total	**10.1**	**11.1**	**17.3**	**19.3**	**57.8**

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

Reserves

113. 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 2017/18 indicates a General Fund reserve position of £15.6M 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.

114. The reserves policy will be updated to ensure it accounts for these risk factors and will be presented with the final Budget report. The budget also includes a contingency element of £2.6M.

115. The assessment of the appropriate level of reserves is continually kept under review. See Appendix G.

Risk Management

116. 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 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 £13.8M savings in 2018/19 and £45.9M 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.
- 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.

2018/19 Capital Programme

117. The Capital Programme is not included within this 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 Capital Programme Report 2018/19 are reflected below.

Table 10 2018/19 Capital Programme Budget (Excluding HRA)

Gross Expenditure	External Funding	Net Expenditure
£m	£m	£m
85.1	(28.0)	57.1

Table 11 2018/19 Capital Programme Funding (Excluding HRA)

Funding Source	2018/19
	£m
Gross Expenditure Budget	85.1
External Funding	(28.0)
Net Expenditure	**57.1**
Funded by:	
Capital Receipts	(10.0)
Borrowing	(47.1)
Total Funding	**(57.1)**

Table 12 2018/19 Capital Programme Revenue Implications (Excluding HRA)

Minimum Revenue Provision	Interest	Total Revenue Implications
£m	£m	£m
4.5	5.6	**10.1**

118. Table 13 below shows the change in Capital Programme Revenue implications.

Table 13 Capital Programme Revenue Implications (Excluding HRA)

Year	Opening Position	Movements			Closing Position
		Interest Charges	MRP	Total Change	
	£m	£m	£m	£m	£m
2018/19	**14.5**	0.2	(4.5)	(4.3)	**10.1**
2019/20	**10.1**	0.5	0.7	1.1	**11.3**
2020/21	**11.3**	0.0	0.7	0.7	**12.0**
2021/22	**12.0**	0.3	1.6	2.0	**13.9**

Note: the opening position for 2018/19 is the 2017/18 Budget.

119. 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.

The reduction in MRP is as a result of a change of methodology agreed by Council in February 2017. This changed the phasing of the payment of MRP from a fixed rate method to an annuity method and so better reflects the value of money over time.

Timetable Milestones

120. The key milestones in the timetable for Council to agree its budget in February 2018 are set out in Table 14 below:

Table 14 Timetable Milestones

Date	Body	Outcome
Early January 2018	Public	Budget papers made available to Public and Public Consultation commences
9th January 2018	Executive	Considers Draft Budget
25th January 2018	Corporate Resources Overview & Scrutiny	Consideration of efficiencies and savings and draft budget proposals
6th February 2018	Executive	Recommends Final Budget
22nd February 2018	Council	Approves Budget
1st March 2018	Council	Reserve Council Meeting in case of delay in receiving notification of other precepts.

Corporate Implications

Legal Implications

121. The Local Government Finance Act 1992 stipulates that the Council must set an amount of council tax payable for the financial year 2018/19 by 11 March 2018. Before calculating the level of council tax payable, the Council must consult representatives of non-domestic ratepayers in its area.

122. 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 2017.

123. 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.

124. As a result of a legal challenge relating to West Berkshire Council, the 2017/18 MTFP contained a full list of the statutory duties relating to specific budget proposals (Appendix F). 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

125. Covered in paragraph 116.

Financial Implications

126. The financial implications of the Budget 2018/19 and Medium Term Financial Plan are set out in the report.

Equalities Implications

127. 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 integrated working with families requiring council support.

128. In terms of the specific efficiency proposals, Equality Impact Assessments will be carried out where appropriate.

Appendices

Appendix A (i)	Budget Consultation (To follow)
Appendix B (i)	MTFP Four year Summary
Appendix B (ii)	MTFP Annual Summary
Appendix B (iii)	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 Net Budget - Diagram
Appendix F	Statutory Requirements of Budget Proposals
Appendix G	Reserves Policy
Appendix H	Council Tax Base
Appendix I	Grant Income
Appendix J	Overview & Scrutiny Committee Comments (To follow)
Appendix K (i)	Budgets by Head of Service
Appendix K (ii)	Budgets by Head of Service Subjective

Background Papers

(i) Budget Strategy - Executive, August 2017