

## **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](mailto:richard.wenham@centralbedfordshire.gov.uk))

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### **This decision relates to a non-key decision**

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#### **Purpose of this report**

1. This report starts the formal process that sets a framework for 2019/2020 – 2022/23 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 2019/20 in February 2019. 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 2019/20– 2022/23 and the preparation of a Budget for 2019/20; 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 will consider the Budget Framework report at its 20 September 2018.

## **Introduction**

3. This report sets out the framework for updating of the MTFP, so that it covers the period to 2022/23, including setting the Council's 2019-2020 Budget.
4. The process and timetable for updating the MTFP and preparing the budget up to its approval by Council on 21 February 2019 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 2018/19, which was agreed by Council in February 2018, was set in an environment of tough economic conditions and the continuation of Government's public spending reductions. The MTFP was balanced for 2018/19 with a small surplus in 2019/20 (£0.2M) and a small shortfall in 2020/21 (£0.2M) but then identified a budget 'gap' (that is, a requirement for further savings as yet unspecified, in addition to those already identified) of £2.2M for 2021/22.
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 that the Council will receive in each year through to 2019/20. RSG ceases completely for this Council in 2019/20.
9. The initial assumption for Council Tax is to maintain the position as of the last MTFP with no increase in 2019/20 and 1.95% the following two years.
10. The Plan also currently assumes that the Council Tax base will increase by 1.85% per annum. The Plan does not assume any further Social Care Precepts as no announcements have been made at this stage.
11. In addition, the planned 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**

12. The financial plan will address the following issues:
  - (a) the priorities of the Council and more specifically the outcomes it wants to achieve over the medium term under those priorities and the allocation of resources to deliver them;
  - (b) changes to the MTFP (revised economic, financial and demographic assumptions and facts) for the period 2019/20 to 2022/23
  - (c) the Revenue Budget for 2019-20, including the required level of General Fund reserves;
  - (d) the Capital Programme for 2019-20 through to 2022-23;
  - (e) the Housing Revenue Account budget (Landlord Business Plan) for 2019-20.

## **MTFP as per 2018/19 Budget Report**

13. The Council agreed a MTFP on 22 February 2018 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for local authorities.
14. The key figures from this current MTFP are shown in the table below:

Medium Term Financial Plan	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
<b>Funding</b>				
Revenue Support Grant (RSG)	4,683	0	0	0
Retained Business Rates	36,105	40,599	43,502	50,225
Council Tax	148,569	151,262	157,057	163,073
Use of / (Contribution) to reserves	-	(1,500)	(1,882)	(635)
Renewable Energy NNDR Income	408	421	434	448
<b>Total Funding</b>	<b>189,765</b>	<b>190,782</b>	<b>199,111</b>	<b>213,111</b>
<b>Growth (%)</b>		<b>0.53%</b>	<b>4.18%</b>	<b>6.57%</b>
<b>Planned Revenue Budget</b>				
Base Revenue Budget Expenditure	379,662	379,846	380,671	389,409
Net Inflation	3,917	3,997	3,038	3,141
Pressures	10,084	11,097	17,324	19,290
Base Income	(190,081)	(190,081)	(190,081)	(190,081)
<b>Total Planned Spending before savings</b>	<b>203,582</b>	<b>204,859</b>	<b>210,952</b>	<b>221,759</b>
<b>Growth before Savings (%)</b>		<b>0.62%</b>	<b>2.89%</b>	<b>4.87%</b>
Efficiency Savings	(13,817)	(14,269)	(11,624)	(6,229)
Closure of Prior Year Gap	-	(0)	-	(217)
<b>Total Planned spending after savings</b>	<b>189,765</b>	<b>190,590</b>	<b>199,328</b>	<b>215,313</b>
<b>Growth after Savings (%)</b>		<b>0.43%</b>	<b>4.38%</b>	<b>7.42%</b>
<b>Budget Gap / (Surplus)</b>	<b>0</b>	<b>(192)</b>	<b>217</b>	<b>2,202</b>

15. This Plan enables the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The level of General Fund Reserves at 31 March 2018 was £15.7M (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.

16. A minimum prudent level of reserves, based on assumptions contained in the agreed MTFP is a range between £11.5M and £25M. This takes into account the Council's expenditure levels, 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**

17. 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.
18. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a manner that helps to sustain growth and employment. At its meeting in June 2018, the Committee voted to maintain Bank Rate at 0.5%. This will need to be carefully monitored as the MTFP progresses.
19. CPI inflation fell to 2.5% in March (having been over 3.0% at the end of last year). The Inflationary impact of sterling's depreciation following the 2016 referendum has now worked its way through the economy.
20. Taking external and domestic influences together, CPI inflation is projected to fall back slightly more quickly than previously thought, reaching the target of 2.0% in two years. These projections are conditioned on a gently rising path for the interest base rate over the next three years.
21. 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**

22. 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.

## **Budget Strategy**

23. The MTFP built for 2018/19 – 2021/22 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.

24. 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. In keeping with the “refresh not re-build” approach, it is not intended that a detailed exercise will be carried out to identify any new pressures and efficiencies on an individual Directorate basis and the focus will be on delivering the existing plan plus incorporating a limited number of new/emerging issues (see paragraph 27).

25. The MTFP will also be extended to cover 2022/23.

26. The MTFP already includes demanding efficiencies to offset pressures, particularly in Adult Social Care, and these need to continue to be addressed in order to manage costs. However, in addition to those existing Pressures and Efficiencies, the MTFP will also focus on the following key areas:
- 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.
  - Waste – The MTFP currently has £0.3M of efficiencies against green waste in 2018/19 and £1.1M in 2020/21 which will need to be addressed, as well as a change in the market conditions for recycle income which is likely to be significantly overspent in 2018/19.
  - LGSS spend due to an increase in the Children’s Services legal caseload.
  - Housing Benefit Subsidy as a result of legislative changes and the complexity of the benefit recovery system.
  - Homelessness, whilst not necessarily an additional pressure due to the mitigating action already taken and due to be put in place, still warrants attention.
  - High Needs Block, which although a Dedicated Schools Grant (DGS) issue, might require difficult decisions in order to keep costs within the budget envelop.

In addition to the issues above, there are new opportunities that will also be factored into the MTFP, these include:

- Increased Leisure Centre Income
- Increased fees & Charges (some already in the MTFP)
- Further changes to refuse collection
- Further Digitisation

## **Consultation and Communication**

27. The Council has statutory responsibilities to consult local residents and stakeholders on its budget and Council tax implications. The proposed approach for doing so this year is as follows:
28. The Council will enable the community to scrutinize and provide feedback on its updated MTFP and budget proposals for 2019/20.
29. It will collect and collate 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 early 2019 to support the process of formulating recommendations to Council.
31. 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 2019

## Budget Assumptions

32. The current MTFP as agreed at Council in February 2018 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 2022/23.
33. The MTFP included an assumption that reserves would exceed the minimum prudent level at 31 March 2018 and that there will be no further material transfers to General Fund Reserves. General Fund Reserves stood at £15.7M at 31 March 2018 (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. CIPFA have a recommended methodology to determine the minimum and maximum level of general fund reserves that an authority should hold and CBC will use that approach.
34. 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.
35. Inflation levels for the proposed MTFP are set at the rates detailed in the table below:

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

	<b>2019-20 and future years</b>
Employees:	
Pay	2.0%*
Increments	0.0%
NI	0.0%
Prices	2.5%
Contracts	2.5%
Income	2.5%

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

36. These (Consumer Price Index) inflation factors which are as of May 2018 will be subject to review, including taking account into new economic data and supplier contract terms.

37. 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.
38. Government have held public sector pay increases to 1% for a number of years, however, this was increased to 2% for 2018/19 and is reflected in the MTFP for 2019/20. Future years are included at 1% and so this might need to be reviewed if inflation continues to run above the Bank of England's target of 2% which results in a real terms cut in employees' spending power.

### **Capital Programme**

39. 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 (2021/22), based on the existing MTFP, the likely cost of capital financing will be c.£13.9M, which equates to 6.5% of the Council's total net revenue budget.
40. 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.
41. The Capital Programme will also take account of any forecast slippage before finalising in order to avoid the situation where a large amount of slippage is rolled over to the following year on top of a full year's spend, thereby creating an unrealistic adjusted budget and so unrealistic expectations.

### **Housing Revenue Account (HRA)**

42. Following legislative changes which took effect on 1 April 2012, the Council now 'self finances' the Housing Revenue Account (HRA). 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 (£164.995M). The Current MTFP includes rental and service charge income of c£29M to c£32M for each of the four years to 2021/22, fully offset by revenue and capital spending, debt repayment costs and transfers to Reserves. To date £0.1M of the debt has been repaid. The latest HRA Business Plan projects full debt repayment by year 26 (2043/44).

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 2018/19 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.

MHCLG are currently considering allowing councils to bid for an increase in their debt cap for the HRA in order to stimulate further housing growth. CBC would be keen to take advantage of that and are currently considering how we would best respond should that opportunity arise.

### **Financial Settlement – December 2017 (confirmed in February 2018)**

44. The main issues announced in the Provisional Financial Settlement in 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 per the consultation, in 2018/19.
  - Savings from the New Homes Bonus in 2017/18 ("top slicing") were allocated to local authorities as the £241M Adult Social Care Support Grant. Nothing was announced in regards to the 2018/19 savings.
  - Continuation of capital receipts flexibilities for a further 3 years.

## **Spring Budget - March 2017.**

45. The Spring Budget announced in March 2017 also provide for additional one off funding for the purposes of Adult Social Care as follows:
46. £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.
47. The funding is 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.
48. For this Council the allocation for 2019/20 is £1.2M.

## **Budget Process – Revenue & Capital**

49. 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.
50. Budgets will be built up during July to early September. This will include a full assessment of the key areas of focus which will then be the subject of formal review at the Corporate Resources Overview and Scrutiny meeting in January 2019. 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.
51. Directorates will refresh their strategies for the next 4 years as part of the MTFP.
52. If existing pressures increase or efficiencies can no longer be delivered, compensatory efficiencies need to be found. Directorates must meet their existing budgets.
53. Directorate strategies will include a rigorous review of the current Capital Programme which will be updated to include 2021/22.
54. In summary, the recommended process is:
  - 1. Review existing pressures and efficiencies and mitigate where necessary.
  - 2. Review key areas of focus and any new opportunities.
  - 3. Directorate budget reviews to major on the key areas of focus identified in paragraph 27 and also integrate Workforce Plans (late September/early October).
  - 4. Consolidation (mid/late October to November).

55. The baseline for the 2019/20 Budget will be the 2018/19 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

### **Budget Process – Fees & Charges**

56. For the 2019/20 budget process, Council approval to Fees & Charges price increases will be sought in November 2018.
57. Most Fees & Charges prices will change on the 1 January 2019.
58. 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 2019.

## **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.

### **Financial:**

59. The planning process will identify the financial risks and opportunities.

### **Legal:**

60. 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:**

61. 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 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):**

62. None arising directly from this report.

**Equalities/Human Rights:**

63. 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.

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 groups, The Council screens all budget proposals for relevance to equality and undertakes equality impact assessments where necessary.

**Overview and Scrutiny:**

64. This report will be considered by the Corporate Resources OSC at their meeting on 20 September 2018 meeting. Scrutiny of this report will enable the Scrutiny Committees to determine if there are areas that they would like more detailed reviews on during the development of the MTFP.

**Timetable**

65. The key milestones for setting the 2019/20 budget are:

Review of Pressures & Efficiencies	July – August 2018
Budget Framework Report to Corporate Resources Overview & Scrutiny Committee	20 September 2018  Between October and January, OSC’s may wish to carry out reviews on focus areas.
Budget Framework Report to Executive	7 August 2018
Directorate Budget Reviews	18 September 2018 – 4 October 2018
Settlement (estimate)	14 – 15 December 2018
Budget consultation	January 2019 - February 2019
Draft MTFP to Executive	8 January 2019
Draft MTFP to Corporate Resources OSC	31 January 2019
Final MTFP to Executive	5 February 2019
Final MTFP to Council	21 February 2019

**Background Papers:** None