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Report of the Director of Finance to the meeting of Executive to be held on 19 July 2016.

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Subject:

Medium Term Financial Strategy 2017-18 to 2019/20 and beyond incorporating the Efficiency Plan

Summary statement:

The Medium Term Financial Strategy focuses on how the Council intends to respond to the forecasted public sector funding reductions as a result of the on-going austerity measures imposed by the Government's spending plans. It sets out the approaches and principles the Council will follow to ensure the Council remains financially viable and delivers on its priorities.

The Plan also forms the basis of the Council's Efficiency Plan for the next four financial years.

The next four years already contained a series of potentially significant changes to the structure of the Council and the services it will be responsible for and what it can provide. Many of these changes are still at consultation stage which brings additional complexity when predicting the future. However, the result of the EU referendum has added a further layer of uncertainty to prospects of stability in local government finances.

The forecast identifies further savings of £11.5m in 2017/18 in addition to the £24.2m agreed in February 2016. In the following year the gap increases to £32m in 2018/19 and then up to £109.5m by 2022/23.

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

1.1 In the medium term the landscape of local government service provision could totally shift through a series of potential changes announced collectively in the Spending Review 2015, Local Government Settlement and the Chancellor's Budget Statement in March 2016. The Medium Term Financial Strategy (MTFS) does however set out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan. The result of the EU referendum has increased the uncertainty facing local government finances. The Chancellor has indicated that there will not be an immediate emergency budget but that there may need to be an adjustment to deal with issues following the referendum result. Any such adjustment through a Budget would be in the autumn. The impact on local government finance is not known and this forecast has not built in any adjustments to the local government finance envelope as a result of the EU referendum result.

1.2 The key outcomes that underpin the financial planning of the Council are:

- Good schools and a great start for all our children
- Better skills, more good jobs and a growing economy
- Better Health and better lives
- Safe, clean and active communities
- Decent homes that people can live in

1.3 The MTFS shows a continuing reduction in the size of the Council's financial envelope and identifies an immediate need to identify revenue savings of a further c£11.5m in order to set a balanced Budget in February 2017. The gap rises to £32m in 2018/19 and continues to widen to £109.5m by 2022/23.

1.4 Appendix 1 section 3.1 contains details of the key risks associated with the forecast. Clearly the recent result of the EU referendum has introduced immediate and unquantifiable uncertainty to the future of local government finances. The key risk is the deterioration of the national economy which could lead to further austerity measures imposed on local government.
The biggest uncertainties that could affect the Council finances post April 2020 are the state of the national economy and in particular the current reforms on local government finance which include business rate reforms, academisation and the restructure of the New Homes Bonus.

1.5 The Council has the opportunity to apply for a multi year settlement which will provide a certain level of comfort on the rate of decline of the Revenue Support Grant (RSG). Annex D to Appendix 1 of this report forms the basis of the Efficiency Plan the Council is required to prepare if it chooses to apply for the multi year settlement.

2. BACKGROUND

2.1 The MTFS forms part of the Council's planning and performance framework, and provides the context for the more detailed budgeting process.

2.2 The MTFS is refreshed each year to give a rolling three year assessment of the fiscal environment, after the close of the previous year, and before the budgeting round commences. It also provides a forecast for a further three years but due to the current work on reforming local government finances these further three years are based on the current financial system.

2.3 The MTFS (Appendix 1) comprises three sections

1. Purpose, priorities and principles – page 2
2. Medium Term Financial Forecast and Gap Analysis – page 4
3. Risks associated with the forecast – page 7

Followed by a series of annexes

Annex A	Current Cost and Resource Structure and savings delivered
Annex B	Expenditure Forecast Assumptions
Annex C	Resource Forecast Assumptions
Annex D	Efficiency Plan (to support application for a multi year settlement)

3. OTHER CONSIDERATIONS

3.1 The MTFS is typically affected by Forward Plan decisions being considered by Executive and Council which have material financial implications. In addition national policy changes can also have a significant impact on the MTFS.

4. FINANCIAL & RESOURCE APPRAISAL

4.1 The MTFS is a financial and resource appraisal.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

5.1 The principal risks arising from the strategic assessment emerge from:

- the sensitivity of financial estimates to actions beyond the immediate control of the Council, in particular Government decision on local authority financial regimes and spending levels. This is particularly significant for this forecast given the National reforms currently being considered
- the capability of the Council to influence Council Tax and Business Rates
- the impact on the economy and any resulting adjustment to the local government financial envelope resulting from the EU referendum vote to leave the European Union.

6. LEGAL APPRAISAL

Non specific

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

Non specific

7.2 SUSTAINABILITY IMPLICATIONS

Non specific

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

Non specific.

7.4 COMMUNITY SAFETY IMPLICATIONS

Non specific.

7.5 HUMAN RIGHTS ACT

Non specific.

7.6 TRADE UNION

Non specific.

7.7 WARD IMPLICATIONS

Non specific.

8. NOT FOR PUBLICATION DOCUMENTS

None.

9. OPTIONS

9.1 The two options to consider are whether the Council wishes to apply for the multi year settlement or reject the offer. In simple terms the multi year offer will fix the Revenue Support Grant (RSG) up to and including 2019/20. Annex C section 1.1b sets out the RSG on offer but is replicated here:

Forecasted RSG from multi year settlement	2017/18	2018/19	2019/20
	£'m	£'m	£'m
RSG included in the forecast	62.8	48.5	34.1

The multi-year settlement guarantee is subject to unforeseen circumstances and the EU referendum vote to leave the EU will undoubtedly be classed as such an event. However, it is too early to say whether any autumn budget will affect the multi-year offer.

9.2 Interest in accepting the multi year offer will only be considered if a link to a published efficiency plan is received by 5pm Friday 14th October 2016.

Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.

At present we do not expect any further multi-year settlements to be offered over the course of this parliament.

9.2 Option 1 – Accept the multi year deal. This option will at least give a limited amount of comfort as to the rate at which RSG will fall and the Council can then plan accordingly. The MTFS assumes that RSG will fall to zero by April 2020 in line with Government announcements. By accepting the multi year settlement the Council would not be locking into a source of funding that would potentially increase.

Option 2 – Reject the multi year deal and be subject to the annual settlement announcement.

9.3 Given the size of the budget gap to close, as indicated by this MTFS, then an element of certainty over the next three years on a funding stream will help in planning to address the budget gap. It is considered extremely unlikely that by locking into the RSG there would be a missed opportunity for an increase in RSG even if there was a change in government.

9.4 Having considered the two options it is recommended that the Council applies for the multi-year settlement based on this MTFS and in particular the Efficiency Plan at Annex D. The position will be reviewed up to 14th October 2016 to ensure that if any new information comes to light, (for example further austerity measures as a result of the EU referendum vote to leave the EU), this can be taken into account before submitting the application for the multi-year settlement.

10. RECOMMENDATIONS

10.1 That Executive consider the Medium Term Financial Strategy as an assessment of the Council's financial outlook to 2019/20 and beyond, and a framework for it to remain financially viable and deliver sustainable public services in line with its priorities using the principles contained in the Efficiency Plan (Annex D).

10.2 That Executive recommends the updated and revised Medium Term Financial Strategy at Appendix 1 of this report be forwarded to Council for approval.

10.3 That Executive recommends, subject to Council approval, to delegate to the Chief Executive, in consultation with the Leader, to apply to take up the multi-year settlement supported by the Efficiency Plan at Annex D based on their assessment of whether this will be in the best interests of the Council.

11. APPENDICES

11.1 Appendix 1 Medium Term Financial Strategy 2017/18 to 2019/20, including the annexes to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Council Budget Report 25th February 2016 Document R

APPENDIX 1

City of Bradford Metropolitan District Council

Medium Term Financial Strategy & Efficiency Plan

2017/18 – 2022/23

PURPOSE, PRIORITIES AND PRINCIPLES OF THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 Purpose and priorities

The MTFS sets out how the Council intends to respond to:

- the forecasted size of the financial challenge it faces in both the medium and longer term (Medium Term Financial Plan – Annex A)
- the constraints of the national and local landscape
- the risks to financial resilience.

In the current financial climate the Council's principal financial aim is to remain viable so that it continues to work with partners, other organisations, residents and communities to deliver positive outcomes on its priorities of:

- Good schools and a great start for all our children
- Better skills, more good jobs and a growing economy
- Better Health and better lives
- Safe, clean and active communities
- Decent homes that people can afford to live in.

To remain affordable and deliver sustainable public services, the MTFS has four main objectives;-

- Continue the trend of recent years to manage down the Council's recurrent cost base in line with reductions in overall resources
- Maintain income levels and increase them where possible, including growing the Council Tax and Business Rates tax base
- Prudently use unallocated reserves and balances to smooth the transition to a lower cost base and accommodate unforeseen challenges, and ensure that longer term liabilities and risks are adequately covered
- Seek to benefit from public service reform

1.2 Approach and principles

The MTFS is consistent with the priorities the Council is pursuing, as articulated in the District Plan and the Council Plan.

The principles that will influence the choices the Council will make in the future are summarised below

- **Enabling Community Leadership** – a culture and system of governance which is vibrant inclusive and democratic.

- **Working closely with partners** - maintain cost-effective partnerships, through pooling resources and collaborating with various organisations in the District

- **Reducing demand, changing expectations and behaviour** -
    - managing and reducing demand for services through changing citizen's behaviour, recognising that people have responsibilities as well as rights.
    - changing public expectations about the level and scope of Service they can expect from the Council and the role they can play in helping achieve positive results for themselves, their families, communities and the District.

- **Investing in prevention and early intervention** – taking action early to stop problems getting worse or from happening in the first place.

- **Reducing inequalities and tackling poverty –** targeting resources where they are most needed to address inequalities and poverty**.**

- **Devolution -** to ensure the Council can operate effectively at neighbourhood, District and regional level. The Council's approach shaped by the outcome of devolution.

- **Productivity and Value for Money** - making sure that services give value for money and maximise the potential of all the District's assets, be they in the public, private or third sectors or within the community.

A robust performance management framework arrangement will make sure value for money, sustainability, efficiency gains and the effectiveness of resource allocations can be demonstrated across all Council services, partnerships and commissioned service delivery; and that mechanisms are in place by which performance against these can be measured and managed. This will provide an increasingly sophisticated understanding of performance against district wide and local priorities set within the context of the financial outlook.

This forecast is based on a series of assumptions which are detailed in Annexes B and C. It starts from the current financial structure of the Council, which is analysed in more detail at Annex A.

The strategy and principles set out above lay down the framework and constraints for the next stage in the continuous cycle of operational and financial planning. Annex D shows the Efficiency Plan to meet the financial planning challenge.

MEDIUM TERM FINANCIAL FORECAST AND GAP ANALYSIS

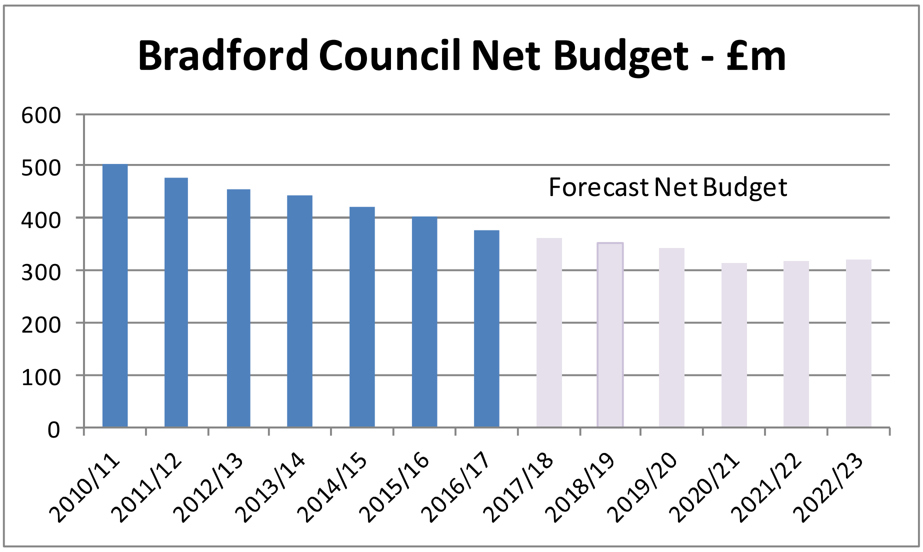
2.1 The medium term and longer term forecasts set out in Table 1 and Table 2 derive from comparing forecast expenditure assuming no changes to current plans, with forecast income, to give a deficit to be managed out through budget decisions.

2.2 The starting point for the Forecast is the current financial structure of the Council, which is analysed in Annex A. It also assumes that the Service and non-Service savings approved by Council, covering 2016/17 and part of the gap for 2017/18 will be achieved in full (£68.8m).

2.3 Forecast cost structure and forecast future resources are affected by a number of factors, some that are within our control and others that are not. However, given the announcements in the Local Government Settlement and March 2016 Budget there are significant changes planned for local government finance but the early stage of these developments mean that the impact on Bradford is currently unknown. These developments are set out in more detail in Annex C. In Annex B the material factors that are likely to affect the Council's spending forecasts are set out.

2.4 This Forecast is also the platform for the Efficiency Plan (Annex D) of the Council in order to secure the multi year settlement on the Revenue Support Grant of which 2016/17 is the first year. This forecast therefore covers in detail the period up to 2019/20 but also projects for a further three years up to 2022/23. Given the uncertain nature of the local government financial landscape post April 2020 clear assumptions are set out.

2.5 In 2010 the Council's adjusted net budget was in the region of £500m, it is now £378m. Given that core grant is expected to disappear by April 2020 the Council is using a working assumption that the net budget will be c£300m in current prices by 2020/21.



2.6 In the five years from the beginning of 2011/12 to 2015/16 the Council has implemented a series of reductions to its net budget of £172.6m. Further reductions of £45.6m (including £1.0m of further Public Health grant cuts) are being applied during 2016/17 taking the total reductions to £218.2m.

2.7 On 25 February 2016 the Council agreed further savings for 2017/18 of £24.2m. Assuming that the Council raises Council Tax in 2017/18 by 1.99% and also applies the social care precept of 2% in full, the deficit still to be closed in 2017/18 is forecast to be £10.3m.

2.8 Initial projections are that it is expected that austerity will have ended and the Council net resources will start to increase again from 2021/22 however, there will still be a cumulative gap of £110m by 2022/23. Clearly the result of the EU referendum has brought further uncertainty and it is too early to understand the implications of this vote. The Chancellor has announced that any adjustment to public finances will be deferred until the Office for Budget Responsibility has updated its forecast in the autumn and any new budget would not be implemented until there is a new Prime Minister. This forecast has not incorporated any fresh assumptions into the financial outlook and if the position materially changes the financial outlook will be updated after any new autumn Budget has been published.

TABLE 1 CUMULATIVE THREE YEAR MEDIUM TERM FORECAST

	2017-18 Forecast £'000	2018-19 Forecast £'000	2019-20 Forecast £'000
NET EXPENDITURE			
2016/17 Base Budget	378,045	378,045	378,045
Reversal of non recurring investment	(1,478)	(2,643)	(2,643)
Full year effect of recurring pressures	500	500	500
Sub total	377,067	375,902	375,902
FUNDING CHANGES			
Education Services Grant	4,668	5,850	5,850
Independent Living Fund	68	131	190
Local Council Tax Support and Housing Benefit Admin	300	600	900
Local Reform and Community Voices	25	48	48
New Homes Bonus Grant	2,081	4,800	5,015
Return of New Homes Bonus Top Slice	(2,045)	0	0
Dedicated Schools Grant	931	1,413	4,020
Better Care Funding to protect Adult Social Care	(4,189)	(4,189)	(4,189)
S31 grants	(8)	(143)	(177)
Public Health Grant	1,085	2,201	3,288
Sub total	2,916	10,711	14,945
INFLATION			
Pay Award, (1.0% up to 2019/20, 2.0% thereafter)	2,164	4,350	6,558
National Living Wage	0	800	2,700
Contract Price Indexation (1.5% in 2017-18, 2.0% thereafter)	3,048	7,427	11,896
Income (0.5%)	(441)	(885)	(1,331)
Employers LGPS Contribution	2,640	2,640	2,640
Base Net Expenditure Requirement	387,394	400,945	413,310
Demographic Pressures in Adults	1,500	3,000	4,500
Adult Social Care Services costs funded by BCF	4,189	4,189	4,189
Additional Adult social care costs funded by precept	3,271	3,306	3,341
2016/17 Budget decisions	(24,242)	(24,242)	(24,242)
Public Health reduction expenditure in line with reduced grant	(1,085)	(2,201)	(3,288)
Apprenticeship levy	1,000	1,000	1,000
One off pressures	1,005	0	0
Transitional Funding	(745)	(980)	(980)
Net Expenditure Requirement	**372,287**	**385,017**	**397,830**
RESOURCES			
Localised Business Rates	(72,097)	(76,238)	(77,763)
Top Up Business Rate Grant	(58,162)	(59,877)	(61,791)
Revenue Support Grant	(62,849)	(48,539)	(34,054)
Use of Reserves - Earmarked	(355)	(120)	(120)
Council Tax Income	(167,266)	(168,200)	(169,134)
Total resources	**(360,729)**	**(352,974)**	**(342,862)**
Budget shortfall	**11,558**	**32,043**	**54,968**
Memorandum			
Council tax base	134,255	135,005	135,755
Council tax Band D	£1,245.88	£1,245.88	£1,245.88

TABLE 2 CUMULATIVE SIX YEAR OUTLOOK

	2017-18 Forecast £'000	2018-19 Forecast £'000	2019-20 Forecast £'000	2020-21 Forecast £'000	2021-22 Forecast £'000	2022-23 Forecast £'000
NET EXPENDITURE REQUIREMENT	**372,287**	**385,017**	**397,830**	**410,253**	**420,714**	**431,480**
RESOURCES						
Localised Business Rates	(72,097)	(76,238)	(77,763)	(79,318)	(80,904)	(82,522)
Top Up Business Rate Grant	(58,162)	(59,877)	(61,791)	(63,645)	(65,554)	(67,521)
Revenue Support Grant	(62,849)	(48,539)	(34,054)	0	0	0
Use of Reserves - Earmarked	(355)	(120)	(120)	0	0	0
Council Tax Income	(167,266)	(168,200)	(169,134)	(170,069)	(171,003)	(171,938)
Total resources	**(360,729)**	**(352,974)**	**(342,862)**	**(313,032)**	**(317,461)**	**(321,981)**
Budget shortfall	**11,558**	**32,043**	**54,968**	**97,221**	**103,253**	**109,499**
Memorandum						
Council tax base	134,255	135,005	135,755	136,505	137,255	138,005
Council tax Band D	£1,245.88	£1,245.88	£1,245.88	£1,245.88	£1,245.88	£1,245.88

RISKS ASSOCIATED WITH THE FORECAST

3.1 A series of potential changes announced collectively in the Spending Review 2015, Local Government Settlement and the Chancellor’s Budget Statement in March 2016 inevitably means the numbers of uncertainties, sources of risk attached to the forecast are significant.

- The impact of national economic performance public sector finance following the result of the EU referendum to leave the EU.
- The buoyancy of the local economy
- Fundamental review of relative needs of local authorities in a national funding regime
- Business Rates Review process, 2017 Revaluation, appeals against the rating list and future increases in the Business Rate multiplier
- Integration of health and social care, the financial health of the NHS, and the ability and willingness of the NHS to fund social care
- Inflation – a 1% variance in pay equates to £2.2m and a 1% change in prices would have a £2.1m impact on expenditure assumptions
- Treasury management – the extent to which cash balances will drive the need to borrow to finance capital investment
- Change management risk, and the deliverability of existing budget decisions
- Liabilities that may arise from conversion of schools to academies
- Contractual risk

- What devolution, regional and other aspects of public sector reform will mean for Bradford
- Impact of demographics in terms of both additional demand and additional growth
- The potential costs of transition and restructuring
- Outcome of the New Homes Bonus reforms
- Triennial valuation of the local government pension scheme

4.1 ANNEX A: CURRENT COST AND RESOURCE STRUCTURE AND SAVINGS DELIVERED TO DATE

To put the size of the challenge facing the Council into context an understanding of the current cost, resource base and savings delivered to date is required.

a) Cost Base

Whilst the Council continues to have overall accountability for close to £1.3bn of spend, it cannot spend directly £419m which is controlled by schools. This leaves, in 2016/17, a gross expenditure budget of £846m (£378m net expenditure) to fund non school activity.

2016/17	Gross Expt £m	Net Expt £m
Council Services	846.1	378.0
Schools	419.5	0
	1,265.6	378.0

If the £178m spent on benefit payments, the £34m required to meet the cost of the long term PFI contracts, the £24m levy paid to the West Yorkshire Combined Authority (WYCA), the £44m that must be spent on Public Health activity and the £42m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £524m, from which to drive out further savings.

Whilst the Net Budget today is £378m, by 2022-23 it is forecast to be just under £322m. That's a 15% drop from today in the amount of cash available to fund services which will continue to be subject to some inflation and increases in demographic-led demand.

Of the net budget of £378m almost one third is allocated to Adult Services. This emphasises that if the Council is going to balance its books in the long term and make sure the services it provides are sustainable, controlling demand and spend on Adult and Integrated Health Care is key.

2016/17 Budget	Gross £m	Net £m	% of net budget
Adults and Community Services	154.3	116.4	30.8%
Children's Services	570.9	71.3	18.9%
Capital Financing, WYCA and contingency	75.7	70.4	18.6%
Environment & Sport	91.5	45.4	12.0%
Regeneration	83.2	36.5	9.7%
Department of Finance	210.1	21.3	5.6%
Travel Assistance	7.1	6.9	1.8%
City Solicitor	8.2	6.0	1.6%
Human Resources	7.6	5.5	1.5%
Chief Executive	4.3	4.2	1.1%
Public Health	45.7	0.6	0.2%

Non Service	7.2	(6.7)	-1.8%
	1265.7	**378.0**	100.0%

A different way of presenting the budget is by the Council Outcomes that will be used for the Outcome Based Budgeting exercise. This is an initial analysis and the definitions and criteria for allocating costs to each outcome will be refined as the process progresses.

Outcome	**Gross £m**	**Net £m**	**%of net budget**
Better health and better Lives	450.5	173.6	46%
Enablers	96.2	53.7	14%
Fixed	48.7	48.4	13%
Better skills, more good jobs and a growing economy	96.7	45.0	12%
Safe clean, active communities	59.7	38.1	10%
Good schools and a great start for all our children	510.4	17.0	4%
Decent homes that people can live in	3.5	2.2	1%
	1265.7	**378.0**	**100%**

The analysis illustrates that 46% of the budget relates to personal type services which will undoubtedly lead to some difficult choices through the budget process.

b) Resource base

The Table below shows that in 2016/17, 60% of the Council's net expenditure is funded from Council tax (43%) and locally retained Business Rates (17%). As explained in Annex C there is currently work being undertaken on the development of the business rates reforms. These reforms are expected to be implemented by April 2020. At the time of writing DCLG have had no information that 2017 rates retention legislation will have to make way for EU exit legislation. Given the significance of these reforms the analysis below has projected on the basis of the current system continuing post April 2020 on the basis of consistency and overwhelming uncertainty on what the reforms might mean.

Sources of Funding in 2016/17	**Gross £m**	**%**	**Net £m**	**%**
Schools Grants	419.5	33%	-	0%
Other Government Grants	293.6	23%	-	0%
Revenue Support Grant	83.9	7%	83.9	22%
Fees, Charges, Contributions	174.5	14%	-	0%
Council Tax and previous year surplus	161.9	13%	161.9	43%
Business Rates and previous year deficit	63.7	5%	63.7	17%
Government "Top Up" Grant	57.0	5%	57.0	15%
Use of Reserves	11.4	1%	11.4	3%
	1265.7	**100%**	**378.0**	**100%**

Please note totals may not add up due to rounding differences

Looking at the prospective composition of the Council's net budget today compared to six years time (see the table below) the points to make are:

- Government Revenue Support Grant today is £84m. It drops steeply over time, and forecasted to reach zero in 2020-21

- Whilst the Council might choose to increase Council Tax current rules require a referendum for increases above 2%. There is also now the power to raise additional sums for Adult Social Care via a social care precept of up to 2%
- Council Tax income today makes up 43% of the net budget. It rises to 54% by 2022/23
- Localised business rates are around £72m today – the aim is to grow them to £82m by 2022/23, around 14%.

Prospective Composition of Funding of Council Net Budget £m (before any business rate reform)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m	£m
Revenue Support Grant	84	63	49	34	0	0	0
Localised Business Rates†	64	72	76	78	79	81	82
Government Top Up Grant	57	58	60	62	64	65	68
Collection Fund Balance	2	0	0	0	0	0	0
Use of Reserves	11	0	0	0	0	0	0
Council Tax	160	167	168	169	170	171	172
Total	**378**	**360**	**353**	**343**	**313**	**317**	**322**

Prospective Composition of Funding of Council Net Budget% (before any business rate reform)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m	£m
Revenue Support Grant	22%	18%	14%	10%	0%	0%	0%
Localised Business Rates	17%	20%	22%	23%	25%	26%	25%
Government Top Up Grant	15%	16%	17%	18%	20%	21%	21%
Collection Fund Balance	1%	0%	0%	0%	0%	0%	0%
Use of Reserves	3%	0%	0%	0%	0%	0%	0%
Council Tax	42%	46%	48%	49%	54%	54%	53%
Total	100%	100%	100%	100%	100%	100%	100%

† 2016/17 business rates are supressed due to deficit on collection as a result of successful appeals on GP surgeries
Please note totals may not add up due to rounding differences

The clear message as the Council is required to absorb further reductions in Government funding is that the Council's ability to grow both its local council tax base and local business rates base in order to sustain services and deliver on priorities will take on increasing significance.

c) Savings delivered to date

Six consecutive years of reductions in Government funding, and inflationary and demographic pressures have required the Council to make savings over the period of £218.2m.

	2011-12	2012-13	2013-14	2014-15	2015/16	2016/17	Total
	£m	£m	£m	£m	£m	£m	£m
Savings	48.7	28.5	26.1	31.8	37.5	45.6	218.2

By 2022/23 it is estimated that to balance the books over £109m more in savings and additional income (29% of the current net budget) will have to be found – on top of the

£218.2m already made and increases in Council tax.

To date the Council has absorbed a disproportionate share of Government funding reductions and protected basic services. The Council will continue to focus on reducing costs and improving efficiency and productivity but finding new savings totalling 29% of the current net budget may mean that it will no longer be possible to protect all frontline services.

ANNEX B: EXPENDITURE FORECAST ASSUMPTIONS

1.1 Inflation

a) Pay

Although the Council does not receive any specific funding for pay awards an amount equivalent to 1.0% for 2017/18 and for each year up to 2019/20 has been included in the calculations. From 2020/21 the pay award has been assumed to be 2.0% p.a. Services are expected to absorb incremental increases.

b) Non Pay

The Bank of England published their forecast of CPI in May 2016, which indicated that inflation would increase to 2% by the end of 2017/18. Given this, an inflation rate of 1.5% has been assumed for contract inflation as the average rate during 2017/18, levelling off at 2.0% in future years. As there is a fixed price contract in place until April 2018 for waste disposal no price increases have been provided for waste disposal in 2017/18. Premises and Transport costs have been increased by 2% in all years.

In recognition of current low levels of inflation, all Services inflation increases to their income budgets are factored in 0.5% per annum.

1.2 Pension Contribution Rates

The next Actuarial Valuation will take place in December 2016. Employers' pension contribution rates have been fixed at 14.2% until the end of 2016/17. The forecast assumes that further provision will have to be made in 2017-18 to address the service pension deficit. An increase of 1% on the Employers' contributions has been incorporated into the forecast. Following the referendum vote to leave the EU the gilt yields have fallen. If the gilt yields do not recover then this will have implications for the pension deficit as the gilt yields are used as a benchmark for calculating LGPS fund liabilities. Similarly, if the fall in share prices remains this will have a negative impact on the triennial valuation.

1.3 Demand-Led Service Pressures

As in previous years an extra £1.5m p.a. has been included to reflect the increased pressure on Adult Social Care services from demographic trends.

In addition £0.5m has been included to reflect the likely loss of income from recycling contracts that are due to expire at the end of 2016/17. The loss of income is due to falling market prices for recyclates.

1.4 West Yorkshire Combined Authority (WYCA)

From 1st April 2015 the WYCA began operations overseeing strategies for growing the economy, creating jobs, developing new affordable homes and improving the transport network. Whilst in 2016/17 the levy paid to the WYCA by the Council was increased by a relatively small amount £65k, discussions as to how to bridge the gap between the aspiration to deliver a £1.4bn Transport Fund compared to the Government's commitment of £1bn over 20 years may result in an increase in contributions by local Councils from 2016/17. No such increases have been factored into the Forecast. The initial forecast of District Council levies indicated a further £1.3m p.a. would eventually be required from Bradford by 2024/25. The levy would steadily increase by an average £140kp.a.

1.5 Service and Non Service Saving Proposals

The Forecast assumes that the Service and Non Service savings of £68.8m, approved by Council, covering 2016/17 and part of the gap for 2017/18 will be achieved in full. If the tracking of these savings identifies this not to be the case, the Forecast assumes Services will absorb the shortfall through compensating savings.

1.6 Health Sector Reforms

Sustainability and Transformation Plans (STPs) are being developed in collaboration with the NHS to tackle financial, care quality and health challenges. No allowance has been made in this MTFS for any impact of financial, organisational or service delivery changes arising from those plans.

1.7 Better Care Fund (BCF)

The 2016/17 Base Budget includes a £4.2m contribution from the Better Care Fund to support Adult Social Care Services. The forecast is reliant on this funding continuing. The Final Local Government Settlement provided an estimate for an Improved Better Care Fund that recognises the fact that some local authorities with a low council tax will not be able to raise as much from the social care precept as those with a high council tax base. Part of this Improved BCF is likely to be funded through the reductions to the amounts of New Homes Bonus paid.

The indicative amounts included in the Final Local Government Settlement are set out below:

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Improved Better Care Fund	0	0	1.6	9.9	17.2

Source: Final core spending power supporting information published by DCLG Feb 2016

It is not clear whether this money will be paid directly to local authorities. None of the Improved BCF monies have been included in this forecast.

As Adult Social Care represents nearly one third of the Council's net budget it is inevitable that further cuts will have to be made in this area. The scale of such cuts depends to some extent on the level of additional BCF the Council receives.

1.8 Care Act 2014

The Care Act 2014 brings a number of challenges to the Council but until further information is available the forecast takes a neutral stance in terms of the impact of the new cap on care costs.

1.9 Independent Living Fund

For 2016/17 the Council will receive a grant of £2.1m for the administration of the Independent Living Fund (ILF). A modest 3.5%p.a. reduction in the ILF grant has been forecast over the period of this forecast in line with the indicative allocations.

1.10 Living Wage

The Council had previously introduced a local living wage from 1 October 2015 of £7.85 per hour as a non consolidated supplement to pay. In the July 2015 Summer budget the government announced that a new compulsory National Living Wage (NLW) will come into effect for workers age 25 and above on 1st April 2016 at the rate of £7.20 per hour. A report to Executive on 3 November 2015 “Introduction of the Compulsory National Living Wage” included the estimated cost of the introduction of the National Living Wage on the Authority. Amounts have been included in the forecast based on the NLW rising to £9.00 per hour by 1920/21. The potential liabilities for this will start to be felt in 2018/19. As a result amounts have been built into the forecast from 2018/19 for the pressure on the Council pay bill based on information contained within the report “AE” presented to Executive in November 2015.

1.11 Devolution

At the time of writing, discussions were underway between senior Leaders of the Regions, Councils and Government about a devolution agreement. Whether these negotiations will slow down or even stop following the EU referendum vote to leave the EU is unclear. For the purposes of the Forecast in this document, no assumptions, either positive or adverse have been made about the financial consequences of such a deal.

1.12 Apprenticeship Levy

A forecast of £1m p.a. has been included in the forecast for the introduction of Apprenticeship Levy from April 2017 for non schools pay. The levy is to be 0.5% of the total pay bill. As the criteria for eligible apprenticeships have not been fully worked through no income returned from the levy has been assumed in this forecast.

ANNEX C: RESOURCE FORECAST ASSUMPTIONS

1.1 National influences

The Local Government Settlement and the Chancellor's March 2016 budget have both outlined that further austerity measures will be applied during the remainder of this current Parliament. There are several reviews and consultations taking place that will affect local government financing over the period covered by this forecast but as these have not yet concluded there is more uncertainty than in previous years. The reviews and consultations are referenced in the appropriate sections below.

The EU referendum vote to leave the EU brings further uncertainty and it is unclear whether there will be an adjustment to local government finances or what the size of any such adjustment may be. No adjustments have been made to this forecast but the situation will be under constant review during the budget setting process.

The 2016/17 change in Bradford's core spending power was a reduction of 3.6% compared to an average of 2.3% for England. By the 2019/20 the forecast core spending for Bradford will be a reduction of 1.9% compared to the national average of 0.4%. However, the 1.9% reduction assumes that an additional £17.2m of Improved Better Care Fund is paid to Bradford Council and that the Council raises a further £14.4m through the social care precept. This means that the level of spending reductions and reforms required in Bradford may be and perceived to be greater than elsewhere.

Bradford Core Spending Power
Source: Final core spending power supporting information published by DCLG Feb 2016

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment *	236.6	211.4	192.8	182.3	172.1
Council Tax, of which:	150.1	159.1	169.4	180.5	192.6
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*150.1*	*156*	*162.9*	*170.3*	*178.2*
additional revenue from referendum principle for social care	*0*	*3.1*	*6.5*	*10.2*	*14.4*
Improved Better Care Fund	0	0	1.6	9.9	17.2
New Homes Bonus†	9.6	11.4	11.5	7.2	6.9
Core Spending Power	396.3	381.9	375.3	380.0	388.8

*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment
†The New Homes Bonus is a pro-rata share of the assumed level of national control total for NHB using projected proportions of funding distributed to each authority for 2016/17. It is not therefore a forecast of the NHB likely to be received.

a – Review of Relative Need

A fundamental review of the relative need of local authorities is being undertaken for implementation in 2020. The relative need determines the baseline for the Settlement Funding Assessment, in other words it sets out how the pot of local government funding may be split. The baseline need is currently determined by the 2013/14 four block model, specific grants rolled into the Revenue Support Grant and subsequent funding reductions. The current four block model was frozen at 2013/14 and is derived from a Central Allocation (on a per capita basis), Relative Need (a combination of relative need measures), Relative Resource (council tax collected) and Damping (to restrict gains or losses).

The fundamental review of the relative needs is being undertaken by the Technical Working Group that reports into the Business Rates Retention Steering Group. The review will tackle some fundamental questions about need and how to measure it. A review on this scale has not been undertaken for a decade. A call for evidence was issued by DCLG on 5th July 2016 with responses due by 26th September 2016.

It is likely that any gains or losses will be reflected through the top up/tariff adjustment. Bradford may gain or lose from this fundamental review but for the purposes of this forecast a neutral position has been adopted.

b– Revenue Support Grant (RSG) (10% of 2016/17 gross funding excluding schools and 22% of 2016/17 net expenditure)

The Final 2016/17 Local Government Settlement announced in February 2016 provided the opportunity for local authorities to apply for a multi year settlement up to and including 2019/20. In essence the multi year settlement only covers the Revenue Support Grant (RSG) and the rate of reduction during that period and it may be adjusted due to unforeseen circumstances. Clearly the result of the Brexit vote will be classed as an unforeseen event in relation to the multi year settlement. The Chancellor has announced that he will await the Office for Budget Responsibility's forecast on the economy in the autumn and following that there may be an Autumn Budget. It is not known whether this will lead to further austerity measures or if such measures are implemented whether they will be directed towards local government. This forecast therefore assumes that the multi year settlement is still on offer.

The Secretary of State for Communities and Local Government in his statement to Parliament on 8th February 2016 said "ultimately the Revenue Support Grant will disappear altogether, as we move towards 100% business rate retention."

It is recommended that the Council applies for the multi year settlement and on that basis the indicative RSG published by DCLG has been included in this forecast. Annex D sets out the Council's Efficiency Plan that underpins the application for the multi year settlement.

Forecasted RSG †	**2017/18**	**2018/19**	**2019/20**	**2020/21 onwards**
	£'m	**£'m**	**£'m**	**£'m**
RSG included in the forecast	62.8	48.5	34.1	0

†Only 20177/18 to 20119/20 are covered by the multi year settlement

The profile of reduction suggests a sharp fall between 2019/20 and 2020/21. In order to reduce the severity of the reduction in RSG from 2019/20 to 2020/21 the Council could choose to implement cuts earlier in order to smooth the impact of the reduction.

c- Business Rates Retention

The move to 100% business rates retention has been widely publicised and a Business

Rates Retention Steering Group has been established with government representatives and interested parties. It is being hosted by DCLG and the Local Government Association (LGA). In addition to the fundamental review of relative need there are also reviews on the NNDR baseline and new burdens associated with the move to 100% rates retention. A further two working groups are tasked with looking at these issues. A consultation on 100% business rate retention was launched by DCLG on 5th July 2016 with responses due by 26th September 2016.

Systems Design Working Group – this group is looking at the mechanisms needed to set up and run 100% business rate retention. It will cover many issues such as redistribution mechanisms, managing appeal risks, safety net, split between tiers of local government, amongst other issues.

A key task for this working group is to make recommendations on establishing the new NNDR baselines for local authorities. The baseline will determine the target level of business rates to be collected by the Council. Over recent years the Council has not achieved the target level of business rates and the effect of appeals has exacerbated the gap between the baseline and actual business rate income. The NNDR baseline is important as it is deducted from the Settlement Funding Assessment to derive the top up grant the Council receives.

It is not explicit from the papers released so far but it appears that there will not be a levy system for above target growth in future. The levy system was introduced to avoid local authorities with potential for high growth making large surpluses and the levies were used to fund the safety net for local authorities that failed to reach a set percentage of their business rates. If the levy system is abolished this will remove the incentive for business rate pools as it is the levy payable that is redirected into the local business rate pool rather than back to central government.

The NNDR baseline and mechanisms to be put in place for 100% business rate retention may lead to gains or losses for Bradford, independent to the review of relative needs. In this forecast it has been assumed that the NNDR baseline will be neutral for Bradford.

Responsibilities Working Group – this working group is reviewing the potential new burdens that will come with 100% business rate retention. It has been assumed that the move to 100% business rates retention will be fiscally neutral for HM Treasury so the new burdens will be offset by any increased share of the business rates income.

One issue that caused some concern was the extension of the Small Business Rate Relief for which local authorities are compensated for the loss of income by a s31 grant funded from central government's share of the business rate income. The Secretary of State for Communities and Local Government has indicated that when 100% business rate retention is introduced the new burdens will be adjusted to allow for the current s31 compensation.

Alongside the business rates reform there will also be a business rates revaluation introduced in 2017 which is likely to bring fresh appeals. Nothing has been factored into this forecast for the effect of the 2017 business rates revaluation.

To compare the proportion of the rateable value that attracts small business rate relief the NNDR1 2016-17 returns have been analysed. To aid comparison the small business rate relief forecast to be given was divided by the small business rate multiplier to give an estimated rateable value of the properties attracting relief. The results of the analysis are shown in the table below:

Comparison of Small Business Rateable Values as a proportion of Total Rateable Value

Authority	Total Rateable Value £m	Small Business Rate Relief £m	Rateable Value on which relief given (rate relief ÷ 0.484) £m	Rateable Value attracting relief as a percentage of total Rateable Value %
Kirklees	281	13.8	28.4	10.1
Calderdale	158	6.9	14.2	9.0
Bradford	384	16.5	34.1	8.9
Wakefield	309	8.0	16.5	5.4
Leeds	918	16.8	34.7	3.8
Westminster	4,116	2.2	4.6	0.1
England	57,365	1,126.7	2,327.8	4.1

Source NNDR1 Returns 2016/17

The table on small business rate reliefs illustrate significant differences in the proportion of relief forecast between different local authority areas. Leeds and Bradford have similar monetary amounts of small business rate relief. However, for Bradford this represents 8.9% of the total rateable value compared to only 3.8% in Leeds. The comparison with Westminster is even starker.

Out of the 36 metropolitan boroughs/districts, Kirklees, Calderdale and Bradford have the highest percentage of rateable value attracting relief as a proportion of the total rateable values in their respective areas. This doesn't necessarily correlate to a vibrant, young entrepreneurial sector but is more likely to be a reflection of property values.

A breakdown of the composition of the rateable value shows that 28% of the business rate base is retail based with 18% categorised as industrial.

Rateable value analysis by business type

Property Type	Rateable Value	% of total
Shops, banks, post offices etc.	109,224	28%
Industrial	69,060	18%
Warehouses, stores etc.	54,985	14%
Offices	49,593	13%
Other commercial	34,318	9%
Education, training and cultural	32,891	9%
Other	33,952	9%
Total	**384,024**	**100%**

Macro economic issues clearly impact on the local economy but the biggest cause of volatility on the business rate income is caused by successful appeals. The business rateable values are set by the Valuation Office Agency (VOA) and any appeals against those valuations are heard by the VOA. The Council has no say in the appeal process. In 2015/16 a successful appeal on purpose built GP surgeries has led to a repayment of £14m of which the Council had to bear £7m.

A potential new power was suggested would become available to local government to cut the business rate multiplier going forward but such a power could quite easily become a race to the bottom and is also fraught with potential state aid implications.

d- Schools National Funding Formula and Academisation

The Education Bill outlined in the Queen's speech will include:

- A new funding formula to deliver fair funding for every school and pupil in the country,
- New laws to expand the academies programme in the poorest performing local authority areas.

First stage consultations have now closed on the proposed Schools National Funding Formula and the responses will be used to inform the second stage consultation process. The first stage dealt with principles and general proposals so it is not possible at this stage to try to understand any change in the totality of funding into the Bradford District or in the distribution of funding between types of schools and academies.

The academisation programme will undoubtedly change the relationship of the Council with schools and hence the Council will need to carefully consider the activities it undertakes in respect of the education agenda.

The amount of Dedicated Schools Grant (DSG) is in the main passported directly to schools and therefore the transfers to academies, whilst affecting how the Council might undertake its duties in respect of education, will have a lesser effect on the net budget of the Council. However, there is an amount of DSG that is used to fund services provided by the Council and this has been forecast to decline as we move to a sector led model.

For the purposes of this forecast we have assumed that the Education Services Grant (ESG) will reduce to just £0.5m from 2018/19.

1.2 Local Influences

a) Business Rates (7% of 2016/17 gross funding excluding schools and 17% of 2016/17 net expenditure)

As explained above the landscape for business rates is changing which makes the forecasting of the business rate income difficult. For the purposes of this forecast any changes to the national system are assumed to be revenue neutral to Bradford. However, as mentioned in section 1.1d above the academisation process will impact on business rate income as schools that convert to academy status will get mandatory relief as charities, which is estimated to be in the region of £3.1m.

For future years the MTFS assumes a minimum underlying level of growth in the Council's net Business rates yield consistent with an annual increase in Business rates multiplier capped at 2%.

In 2016/17 the Council is to receive £6.1m in Section 31 grants to compensate the Council for the loss of business rates income as a result of Business Rates Reliefs included in the March 2016 budget.

The Forecast assumes that the Council's current Discretionary Rate Relief continues in its current form and is not extended to include growth incentives.

The cost of appeals against the 2010 rating list continues to adversely affect the Council's Business Rates income. At 31 March 2016, based on information provided by the Government's Valuation Office Agency, there were 1918 appeals outstanding with a Rateable Value of £178m. To cover the cost of settling these appeals an estimated £12.2m has been provided for in the Business Rates Collection Fund. This has contributed to a deficit on the Business Rates Collection Fund at 31 March 2016. Bradford's share of which (49%) will be recouped in 2016/17 from locally retained Business Rates income in order to bring the Collection Fund back into balance.

The Council continues to commit to being a Member of the Leeds City Region Pool along with the other four West Yorkshire Authorities, Harrogate and York. The advantage of the pooling arrangement is that levy income generated by Leeds, Harrogate and York is retained in the region as opposed to being paid over to the Government. The future distribution of any levy income generated will be determined by the Leeds City Region Business Rates Joint Committee and is outside the scope of this Forecast.

The business rate reforms may lead to the levy being abolished which would remove one of the primary reasons for establishing a business rates pool.

b Council Tax Levels (19 % of 2016/17 gross funding excluding schools and 43% of 2016/17 net expenditure)

For 2016/17 the limit on raising council tax remained at 2% but a new power was introduced to raise up to an additional 2% in council tax through a social care precept, recognising the continued and growing pressure on the adult social care budget. With a 2016/17 Band D Council tax of £1,198.08 (including the social care precept of 2.0%) the Council continues to set one of the lowest Band D Council Taxes of all Metropolitan Districts.

In total the Council budgeted to raise £160m in Council Tax in 2016/17.

Any future increase in Council Tax will be consulted on as part of the Budget process. In February 2016 Full Council indicated a 3.99% Council Tax rise for 2017/18. This figure has been included in this forecast but no further Council Tax rises have been included for future years. If the Council Tax rise of 3.99% is not agreed for 2017/18 this would widen the gap for 2017/18 by a further £6.4m.

No Council Tax freeze grant was offered as part of the Final Local Government Settlement, which together with the social care precept is a significant shift in central government policy.

With early indications pointing to a growing number of new properties being built in the District the Council Tax base has been increased by an estimated 750 Band D properties in 2017/18 and a further 0.6% in subsequent years. This may prove to be a relatively cautious estimate and will be kept under review as the Local Plan is implemented.

It is important to understand the profile of the categorisation of properties in the District and the effect it has on limiting the revenue that can be raised through Council Tax increase compared to more affluent areas. The table below shows that 121,375 or 78% of properties fall within bands below Band D. This clearly limits the amount of money that a rise in Council Tax will raise compared to other districts that have property profiles skewed to higher council tax bands.

Council Tax Band Analysis 2016/17

	A*	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Equivalent number of properties	86	55,461	34,158	31,670	15,031	10,845	5,196	3,306	232	155,985
Band D Ratio	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent number of properties	48	36,974	26,567	28,151	15,031	13,255	7,506	5,509	464	133,505

The Council Tax Reduction Scheme (CTR) provides help with Council Tax for people on low incomes. As a result of more people being in employment the CTR awarded in the current year is reducing. This gives the Council the opportunity to either:-

- change the current CTR scheme by increasing the protection granted to vulnerable groups or reducing the percentage of Council tax residents on low income are expected to pay; or
- increase. the Council Tax base included in the Forecast and reduce the funding gap identified in each year of the Forecast.

2.1 Core Funding – specific grants

In addition to the funding announced in the Final Local Government Settlement details of the main grants that will be paid to the Council have been announced which will be used to fund over £71m of the Council's gross expenditure, the most significant being the ring fenced Public Health Grant.

	2016/17 £m
Local Council Tax Support and Housing Benefit Admin Subsidy	3.1
Public Health Grant	44.0
Education Services Grant	7.0
New Homes Bonus	11.2
Returned New Homes Bonus top sliced monies	0.3
Section 31 Business Rates Compensation	
Small Business Rates	4.1
Top Up and Multiplier 2% Cap	1.9
Retail Reliefs	0.1
Total	**71.7**

Lead Local Flood Authority grant and Adult Care Act New Burdens grant have been rolled into the RSG as part of the 2016 Final Settlement.

a) Public Health

To cover the cost of public health services delivered by the Council, the Department of Health will pay the Council a ring fenced grant of £44.0m in 2016/17 which includes the full year effect of district health visiting responsibilities which transferred to the Council on 1 October 2015. The Head of Public Health England has indicated the probable level of cuts to the Public Health grant up to and including 2019/20. These cuts have been included in this forecast. This means future contract inflationary pressures will have to be absorbed from the within the Public Health grant.

It is thought that with the introduction of 100% retention of business rates that the Public Health grant will disappear and become part of the new burdens to be funded by business rates. This forecast assumes that the level of Public Health funding will remain cash flat post 2020.

b) Education Services Grant (ESG)

The Council and Academies in the District are allocated an Education Services Grant (ESG) on a per pupil basis according to the number of pupils for whom they are responsible. There have been further cuts to the ESG in 2016/17. The current consultation on the National Schools Funding Formula indicates that ESG will be significantly reduced. The level of ESG has therefore been phased down to just £0.5m in 2018/19 from the current level of £6.35m. The grant is not ring fenced; therefore the forecast has not assumed that savings equal to the reduction in the grant will be made in those areas that ESG currently funds.

c) New Homes Bonus Grant

The Chancellor announced in the 2015 Spending Review that the New Homes Bonus (NHB) needed to reduce by at least £800m in order to redirect funding to adult social care (i.e. Improved BCF). A consultation was launched in December 2015 which has now closed and central government are considering the responses. Any announcement on a revised NHB is unlikely to be made until later this year.

One option included in the consultation was to reduce the number of years NHB would be paid from six years to four years. The amount included in this forecast is the removal of one year funding in 2017/18 and the removal of two years funding from 2018/19.

The estimated amount of NHB in future years is based on a rolling average of the previous three years. For 2018/19 onwards a scaling reduction has been applied to keep the New Homes Bonus within the forecast national control total.

In 2017/18 a forecast return of NHB of £2m has been included in the forecast based on the assumption that the removal of one year NHB funding for 2017/18 will release some of the top slice taken by DCLG.

Forecast New Homes Bonus

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £00
Year 1 (Actual)	2,760	2,760	2,760	0	0	0	0
Year 2 (Actual)	1,150	1,150	1,150	0	0	0	0
Year 3 (Actual))	1,756	1,756	1,756	1,756	0	0	0
Year 4 (Actual))	1,864	1,864	1,864	1,864	0	0	0
Year 5 (Actual)		1,708	1,708	1,708	1,708	0	0
Year 6 (Actual)			1,916	1,916	1,916	1,916	0
Year 7 (Est)				1,829	1,829	1,829	1,829
Year 8 (Est)					1,818	1,818	1,818
Year 9 (Est)						1,854	1,854
Year 10 (Est)							1,834
Less scaling to remain within national control total					(917)	(1,278)	(1.093)
Total	**7,530**	**9,238**	**11,154**	**9,073**	**6,354**	**6,139**	**6,242**

A more radical option in the NHB consultation is potentially to withhold all or part of the payment of NHB for local authorities that have not produced a local plan. We have assumed that such a measure would not be applied to Bradford.

d) Local Council Tax Support and Housing Benefit Administration

With no clarity on when Housing Benefit Administration will fully transfer to the Department of Work and Pensions (DWP), a reduction of 9.6% has been assumed in the two separate grants the Council receives to fund the cost of administering Council Tax reduction (CTR) scheme and Housing Benefit. The reduction has been factored into the underlying funding gap as opposed to being addressed by the Service.

e) Local Welfare Assistance Funding

The Forecast assumes no external funding for Local Welfare Assistance.

3.1 Schools Funding

Of the Council's gross spend of nearly £1.3bn, £419.5m is spent by schools and funded from the ring fenced grants, Dedicated Schools Grant (DSG), Pupil Premium and Post 16 funding.

The funding system for schools is currently very fluid and the timescale for the introduction of the anticipated national funding formula for primary and secondary schools is still unclear.

4.1 Reserves

At the start of year, the Council has £19.9m of unallocated reserves, £6.2m of which have been used immediately to support the 2016/17 Budget. This leaves just £13.8m (1.5% of the Council's gross budget excluding schools) as a contingency reserve.

The level of unallocated reserves will be kept under the review, in the light of the Council's External Auditor's recommendation in their June 2015 report on the Council's arrangements for securing Value for Money "that unallocated reserves should not be allowed to fall below the level determined prudent by the Council's Section 151 Officer".

All other balances are set aside to meet the cost of future commitments and political priorities. The utilisation and purpose of which will be subject to regular scrutiny.

5.1 European Funding

The Council is in receipt of EU Structural funds and works with businesses and the VCS across the district on EU programmes. It is anticipated that following the vote to leave the EU that central government monies will be directed to the regions to replace any potential loss of EU structural funding.

If the funding is not replaced it will have a negative impact on the range and type of interventions the Council can be involved with.

ANNEX D: EFFICIENCY PLAN

This Efficiency Plan is a continuation of the Planning Framework and Strategies for Delivering Planning and Efficiencies that the Council has been implementing since the beginning of austerity. The Efficiency Plan will be used to support any application for a multi-year financial settlement with central government.

The Council has published a District Plan, and is developing a Council Plan for formal adoption in September. The latter will be the mechanism through which detailed service and internal budget plans will be developed, in order to keep Council performance effective and finance sustainable.

Between 2011/12 and 2015/16 the Council delivered net cost reductions totalling £172.6m, and has plans to deliver £45.6m more in 2016/17 and £25.3m more in 2017/18 (already reflected in the forecast).

In defining future service changes and associated budgets, it will build on the approach adopted hitherto which has included:

- Being clear about its priorities, and assessing budget proposals against them
- Explaining the financial challenges facing the Council
- Working with partners, stakeholder and citizens to explore what people should be able to expect from local services, what it is reasonable to pay or pay more for, what they are responsible for themselves and within their communities, what people can contribute and what support they might need
- Consulting on specific changes in informal and formal ways, and taking account of feedback before setting the final Budget
- Where appropriate balancing cost reduction with growth and investment.

The budget reductions from 2011/12 to 2016/17 by department are shown in the table below:

Budget reductions by department 2011/12 to 2016/17	£m
Adult and Community Services	53.9
Cross cutting and non service	42.1
Children and Young People	37.2
Regeneration	23.2
Support Services	21.2
Environment and Sport	17.3
Finance	10.8
Travel Assistance	7.8
Public Health	4.7
Total	**218.2**

The table illustrates that despite £63m of the reductions coming from cross cutting, non service and support services there has still been a large proportion of the reductions to the biggest spending departments. Given the size of the reductions required this is unsurprising.

If the savings over the same period are analysed by type of saving it is clear that efficiency, restructuring and management savings have contributed to the biggest share.

In later years these savings as a proportion of the total have reduced where cessation and reduction in services are now becoming more prominent.

Budget reductions by type 2011/12 to 2016/17

Savings Type	£m	%
Efficiency, restructuring and management	56.2	26
Renegotiate contracts, better commissioning	30.6	14
Back office support, training and equipment	26.1	12
Cease or reduce service delivery	25.4	11
Reduce non service expenditure and base budget provisions	22.0	10
Increased income (charges, trading and grants)	11.2	5
Reduce demand, requirements, prices	8.7	4
Property and utility costs	6.9	3
Change to eligibility	6.5	3
Transfer to alternative providers	6.0	3
Partners contributions and collaboration	5.6	3
Reduce grants and third party payments	4.1	2
Savings from invest to save/prevention	3.6	2
Public Health support	2.9	2
Terms and conditions	1.5	1
Transitional support to move to new delivery model	0.7	0
Total	**218.2**	**100**

It is also worth noting that the savings category that has been one of the most difficult to achieve is the increased income which reflects the price elasticity of demand for many of the Council services and also the impact of the economy on the level of income generated e.g. planning fees.

Contingency budgets have been utilised to plug the gap where budget reduction plans have not been implemented to plan. In addition reserves will have to be utilised in order to fund transition costs as Council services are reshaped.

Another lesson from the previous five years of budget reductions is that small scale reductions can generate a lot of resistance for example closure of public conveniences.

Stakeholder engagement is vital if budget reduction plans are to succeed and diversifying the risk across different types of budget reductions provides resilience in achieving those reductions.

It is also very clear that Council tax increases are an increasingly essential component for setting a balanced budget as central government support reduces. This was also reflected in the core spending figures published as part of the Local Government Final Settlement.

All of these factors inform the budget setting process which is set out in more detail in the next section.

1.1 Budget Setting for 2017/18 and Beyond

To manage changes in future resources, service demand and the impact on spending levels requires a robust planning framework. Budget setting is at the core of the financial planning process. It is a complex process that must be fully integrated with the Council’s strategic planning, service planning and value for money planning.

Given the size of the task remaining to reduce the size of the Council's budget, the Council is adopting an Outcome Based Budgeting approach as the methodology to set its future budgets. This approach is to design what the Council should undertake in the future to have the biggest positive impact on the Council priorities with a net budget of £300m in real terms by April 2020.

The Council Priorities are:

- Better skills, more good jobs and a growing economy
- A great start and good schools for all our children
- Better health, better lives
- Safe, clean and active communities
- Decent homes that people can afford to live in

Boards have been set up to determine what the sub-outcomes need to be in order to deliver the Council Priorities and then to set out the actions the Council will undertake to best achieve those sub-outcomes. There is full engagement with the Executive on the Outcome Based Budget process. The process has already commenced and a structured plan will be implemented to change the shape of the Council. From the Outcome Based Budgeting approach the shape of the Council in April 2020 will be designed and budget proposals formulated to determine the staging posts in order to get to that April 2020 position. Firm 2017/18 budget proposals will be consulted on from late 2016 with proposals also set out for 2018/19.

In determining its Budget, the Council will take account of the public sector equality duty as detailed in the Equality Act 2010. The public sector equality duty requires the Council when exercising its functions to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The Council will ensure that there is meaningful consultation throughout this process. The Council will ensure it meets its legal obligations in this respect, both as a public authority responsible for the delivery of services in the District, and as an employer (in the event that workforce implications are envisaged).

The Council will apply rigorous project management principles to its budget setting process to ensure consistency, effective management of interdependencies across Council services and compliance with the principles of the current internal design.

1.2 Value for Money

The Council will use a full range of strategies, approaches and tools to ensure it gets value for every pound it spends. They include:

- Exploring the options for innovative and alternative models of service delivery

- Commissioning and procurement strategies and frameworks
- Reviewing and identifying the opportunities to share services and jointly commission services with other organisations
- A performance management framework
- Use of a wide range of management information on efficiency and productivity
- External benchmark and other comparative indicators
- Qualitative surveys
- User involvement (co-production, devolved decision-making) and emphasis on social value
- Demand management and other techniques to manage non-pay costs
- Pricing and charging
- Contract management tools
- Business case and other decision-support techniques
- Cross-Agency pooling of resources
- System and process reviews

1.3 Statutory Framework

When the Council is looking at proposed service changes and reductions, the impact that change or reduction may have on the Council's continued compliance with its statutory duties must also be considered. The Council will need to consider how it can continue to comply with its statutory duties but at a reduced level and whether the risks of reducing the level of compliance are acceptable in the context of a significantly reduced budget.

1.4 Partnership Working

The partnerships and networks are responsible, with the Bradford District Partnership (BDP) Board, for shared outcomes identified by the BDP and partnerships. The Board provides strategic leadership and oversight to the delivery of shared priorities and provides a collective response to challenges facing the district.

1.5 Relationship with the Voluntary and Community Sector

The Council values its relationship with the Voluntary and Community Sector (VCS) as a partner and recognises the significant role it plays in delivering on our shared priorities for the District.

As Government reforms and reductions in public spending continue to take effect, the Council remains committed to working with the VCS through the Bradford District VCS Assembly, engaging in a mature and on-going dialogue about delivering on priorities and addressing the key strategic issues affecting the District. In particular, the Council will seek the close involvement of the sector in reviewing VCS commissioning arrangements.

1.6 Relationship with Business Sector

To help deliver a thriving local economy and support business growth the Council maintains strong links to the business community in order to understand its needs and help identify potential opportunities for investment and growth. The Council will continue this approach to working with the private sector through direct contact with business and through relevant partnerships/networks. This activity helps to both promote Bradford District as a place to do business in and to support local entrepreneurs, skills and the delivery of additional employment opportunities.

1.7 Role of Local Councils

Within the Bradford District there are eighteen Town and Parish councils. These local councils have three main responsibilities:

- Represent their local communities;
- Delivering services to meet local need;
- Striving to improve the quality of life in the parish

The local councils can raise their own precepts to help fund these responsibilities. The local councils are the first tier of local government. The Council will continue to engage with the local councils in order to ensure that services are delivered by those best placed to do so.

1.8 Community Budgets / Payment by Results

The Council is committed to making wise use of the totality of all of the assets and resources available to the District. This means thinking more radically and planning for larger-scale transformational change in service delivery. It is clear that efficiency measures alone will not be sufficient to meet the challenges that the District faces.

1.9 Social Investment

The Council is also willing to explore opportunities to fund services through social investment. Essentially social investment can offer the investment to fund services with the investment being repaid usually in return for moderate returns. For instance social impact bonds may improve the social outcomes of publicly funded services by making funding conditional on achieving results.

1.10 Alternative Delivery Models

The Council will continue to explore the options on alternative delivery models and adopt these where it makes sense to do so. The key principle is to offer the best service and outcome rather than allow the choice of model to direct the approach to the arrangement.

Types of delivery model include:

In house provision
Strategic partnership
Shared services
Outsourcing
Establish separate corporate entity to deliver services
Establish a staff mutual

1.11 Internal Changes

Managing the Council's Buildings

The Property Programme to manage the Council's buildings is now nine years into a 10 year invest-to-save strategy. Since its inception 65 properties have been vacated and gross revenue savings of £5.2m per year generated. Future objectives will include;

- Completing approved schemes as planned and continuing work to optimise the size and quality of the Council's estate. Schemes that are nearing completion will deliver an extra £2m per year savings.
- Identifying opportunities to share property with other public sector partners as part of the Government's One Public Estate initiative.
- Ensuring that all property issues generated from the Council's Efficiency Plan are managed.

1.12 Contingency Planning

The Council has a Risk Management Strategy and from this the Council identifies the main risk to its operations in the Risk Register. To recognise the risks, contingencies in the base budget have been set at a level consistent with experience in 2015/16. Clearly the financial landscape of the Council is subject to change and the EU Referendum result to leave the EU has brought further uncertainty to the shape of that landscape. Issues that emerge will be assessed on an on-going basis and if it is considered necessary spending plans will be adjusted accordingly.

In addition to the contingencies specific provisions have been set aside in relation to liabilities that are likely to arise.

At the 31st March 2016, the Council set aside £22.7m, of which £9.4m is expected to be used in 2016-17 with the remainder in subsequent years. Provisions are £2.7m higher than at the 2014-15 year end.

The main provisions include:

- £8.4m Termination Provision to fund the cost of future redundancies
- £6.0m Business Rates appeal provision
- £4.0m Outstanding legal claims
- £3.9m Damage Compensation

1.13 Reserves Policy

In turbulent financial times, the Council's unallocated reserves enable a balanced budget to be set as the Council moves to a smaller organisation. However they cannot sustain day to day services on an on-going basis.

The Council will continue to use balances prudently, recognising that the volatile fiscal climate requires the Council to remain resilient, through the retention of adequate balances.

The Council has a long standing principle to maintain a prudent level of general reserves. This is currently set at 2.5% of the net budget each year and informed by a risk assessment.

With a financial gap of £109m it is inevitable that there will be some call on reserves but the unallocated reserves of £13.8m are just 12.6% of the forecast gap.

Whilst the balance of reserves appears to be healthy, a closer inspection reveals how these are forecast to reduce over the period of this forecast.

Reserves as at 31 March 2016

Reserve category	**£m**
Service earmarked reserves	42.8
Capital reserves	13.1
Unallocated reserves	19.9
Corporate earmarked reserves	38.9
Grant reserves	8.4
School balances	33.8
General reserve	10.8
Total	**167.7**

Of the service earmarked reserves of £42.8m one quarter of these are expected to be utilised in 2016/17 with the remainder forecast to be used over the period up to April 2020. The capital reserve is fully allocated to support the financing of the capital investment plan.

At the start of 2016/17 there were unallocated reserves of £19.9m available of which £6.2m were used immediately to support the 2016/17 Budget. This leaves just £13.8m or 1.5% of gross Council expenditure.

Accordingly, reserves should be used only to:

- Support transitional arrangements both organisational and in our communities, in recognition of the fact that some changes cannot be implemented in one financial year or over the short-term.
- Fund non-recurrent or time limited activities contributing to Council priorities (where there is a compelling business case)
- Support invest-to-save activity

Of the corporate earmarked reserves, £12.3m is set aside for specific work on skills jobs and economy. These one off funds are being used to facilitate the growth of the local economy and ultimately an increase in business rates.

£11.5m of the corporate earmarked reserves are set aside for specific risk such as insurance claims, transitional activity, and partially exempt VAT liabilities. Of these £3.6m are due to be used in 2016/17.

£4.1m of the corporate earmarked reserves are set aside for severance costs which will need to be funded as the size of the Council reduces.

£4m of the corporate earmarked reserves are to be used for waste minimisation actions to facilitate a reduction in waste collection and disposal costs.

£2.8m of the corporate earmarked reserves relate to deferred expenditure which will be utilised in full during 2016/17.

The £8.4m of grant reserves are specific sums of money to be spent in line with the grant conditions.

School balances are controlled by the Schools Forum and there is little scope for the Council to influence the use of these reserves.

To sum up, the level of reserves is forecast to reduce significantly during the period covered by the Efficiency Plan.

1.13 Treasury Management

There has been a clear trend of reducing cash balances and during 2015/16 cash and cash equivalents have reduced by £24.4m to £70.5m as at 31 March 2016. This will be kept under review and there may be a point reached during the next few years where borrowing is required in order to maintain sufficient working capital for the Council to run its operations.

1.14 Fees, Charges and Income Stability

In the past two years a clear picture emerged of the difficulties faced by Services dependent on external fees and charges. To address this matter selected income targets have been reduced. Going forward Services should continue to

- maximise income opportunities whilst having regard to Council and partners priorities, service performance and the impact on key service groups and businesses in Bradford.

- have regard to the cost of collection when setting charges and aim to recover promptly all income that it is due.

- explore trading and charging opportunities where it makes commercial sense to do so.

- consider the investment strategy relating to property holdings where a strong business case suggests that there may be opportunities to gain an income stream from such investments.

1.15 Council Tax Setting

Historically the Council has set relatively low levels of Council Tax, below the averages for both Metropolitan Districts and all local authorities in England. This means that there is a wider gap between resources and expenditure when there are reductions in central government funding than would be the case if Council Tax were at average levels.

Going forward the key objective will be to strike a balance between protecting services, investing in priority areas, delivering value for money and setting an appropriate level of Council Tax.

For 2016/17 the Government announced that Councils with responsibility for adult social care would be allowed to raise a social care precept of up to 2% on top of the basic council tax increase. For the 2016/17 Full Council chose to raise the social care precept by 2% and a forecast has been made to do so again in 2017/18. Given the increasing pressure on social care costs the approval of raising further funding through the social care precept makes financial sense.

The Council aims to collect a minimum of 97.4% of all Council Tax debt raised.

In addition to the Council Tax and Social Care Precept the local town and parish councils also raise their own precepts which are used to deliver services in their local areas.

1.16 Budgetary Control and Monitoring

- Budgets will be controlled by the relevant budget holders, monitored regularly throughout the year and reported alongside performance information to individual Assistant Directors and Strategic Directors on a monthly basis. Executive will receive quarterly reports to ensure that action is taken to address any significant unplanned deficits or surpluses.

- Service areas are required in the first instance to accommodate unforeseen expenditure or income shortfalls from within their approved cash limits in any particular year. Allocations from reserves will only be made if there is no alternative and on the approval of Executive.

- The Budget Delivery Board receives monthly reports on an exception basis and reviews the delivery of the budget proposals approved by Full Council. Where budget proposals are not proceeding to plan corrective action is recommend by the Board.

The detailed principles applying to all aspects of financial management are set out in the Council's Constitution.

1.17 Internal Control and Reporting

The maintenance of a sound internal control environment is paramount, and the Council has developed and embedded effective corporate governance. Within the prevailing internal and external protocols and guidance, including the Annual Governance Statement, the Council will aim to deliver best practice in this important area.

Financial monitoring and reporting will be undertaken in accordance with the budget management and control framework and in line with the corporate financial monitoring and reporting timetable. The current and estimated year end financial position will be reported, including progress against savings targets at regular intervals to both Members and officers. Reporting will be on an exception basis bringing managers' and Members' attention to important financial issues linked to cost drivers and strategy. The emphasis will be on future corrective action to bring performance back on track rather than explaining past performance.

Quarterly financial monitors presented to Members will report on key balance sheet balances as well as the forecast revenue and capital expenditure positions.

1.18 Improvements in Management Information

A programme of work continues to make more use of activity-based and unit cost information, to focus more on productivity and value for money. Performance is reported alongside financial stewardship reporting.

1.19 Performance Management Arrangements

The regular reporting of key corporate indicators and measures to Members is a key element of the Council's corporate performance framework that provides assurance around service performance, the Council's contribution to District outcomes, value for money and informs decision-making. At a time of reduced resources and increasing demand, the Corporate Indicator set is part of a performance framework that helps the Council be smarter about where to allocate its budget and assets and to measure their impact.

The Council has 45 headline indicators on which it monitors progress.

1.20 Transparency

The Council is committed to adhering to the statutory Transparency Code that provides local people with the tools and information they need to enable them to play a bigger role in shaping the services the Council provides.

1.21 Capital Financing and the Capital Investment Plan (CIP)

Capital spending will remain a significant aspect of the Council's financial strategy, with planned capital investment of £350.2m during the period from 2016/17 to 2020/21.

The profile of the capital expenditure is as follows:

Capital Investment Plan (CIP) profile

2016/17	2017/18	2018/19	2019/20	2020/21	Total
£m	£m	£m	£m	£m	£m
107.4	111.9	91.0	22.6	17.3	350.2

Slippage in the profile of capital spending will lead to one off savings in the capital financing budget as a higher proportion of the CIP is now funded from corporate resources compared with previous years.

The analysis of the planned capital spending by Council Outcomes is shown in the table below:

Capital Investment Plan analysed by outcome

Outcome	Planned Spend £m
Better skills, more good jobs and a growing economy	116.0
A great start and good schools for all our children	63.8
Better Health, Better Lives	63.7
Decent Homes that people can afford to live in	50.3
Safe, clean and active communities	32.6
Enabling activities	14.8
Contingency	9.0
Total	350.2

The revenue budget associated with financing the capital investment plan does have headroom for additional capital spend of up to £50m (in totality – this is not a per annum figure). Or there could be a choice to freeze any new capital spending plans and take the revenue savings.

Forecast Capital Financing Budget	**2016-17 £000**	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
Forecast					
Interest	19,940	18,153	17,900	17,891	17,194
Premia/Discounts	285	285	285	285	285
Principal on Historic Spend	15,255	15,060	14,464	13,948	13,948
Principal on Planned Spend	0	2,761	5,528	6,544	7,853
Available New Spend/Revenue Saving	6,420	6,002	4,366	4,505	4,493
Total	**41,900**	**42,261**	**42,543**	**43,173**	**43,773**

The Council's objectives in managing the CIP and its financing are:

- To ensure that the schemes in the CIP are funded in the most cost effective way for the Council.
- To ensure that the financing costs fall as revenue resources reduce and therefore do not become an unsustainable burden on the Council revenue.
- To manage the portfolio of debt in such a way that the Council is not exposed to major shifts in interest rates by managing the maturity structure of debt and exposure to interest fluctuations.
- To ensure that capital spending is aligned to the Council's priorities

Given the Government no longer provides additional resources to fund new borrowing by the Council, key to the Council's capital financing strategy is to manage down its corporate borrowing and at the same time reduce the reliance on external borrowing.

To achieve this aim the Council will

- use in the first instance internal cash balances when high interest external loans mature and
- continue to invest in schemes that either generate additional income (e.g. affordable housing schemes) or reduce costs (e.g. office rationalization that reduces running costs and allow for disposals) to pay for the capital financing costs of the prudential borrowing.

The value of loans that are due to mature during the period 2017/18 to 2020/21 is £38.4m and new borrowing of £20m is forecast to be taken out during this same period. This will leave the Council with a forecasted £315m of debt outstanding by April 2021.The position will be reviewed in the light of actual cash balances and capital investment plans.

A Project Appraisal Group is the expert officer forum for reviewing the Capital Investment Plan and scrutinising individual business cases, in support of Directors and Members.

All capital receipts will be treated as a Corporate Resource.

1.22 Risk Management Strategy

The Council has in place a comprehensive Risk Management Strategy and action plan. All financial decisions take place within the principles set out in the risk management strategy. Responsibility for the management of financial risk is shared between elected members and officers with overall risk management being the responsibility of the Executive.

The Risk Management Strategy provides a framework which is designed to enable the Council to take a proactive approach to the identification and management of risk and opportunity, and to ensure that it is best placed to seize the opportunities that present themselves. The Council will not be risk averse, and will seek to seize and maximise opportunities by the appropriate identification and management of risk.

In constructing and assessing the annual budget for the forthcoming year, a comprehensive financial risk assessment is undertaken for all parts of the budget, including sensitivity analysis, and steps are taken to manage identified risks to the extent appropriate.

The Council has adopted the Covalent Risk management database for recording, monitoring and overall management of its risk register. It provides a consistent method for scoring and evaluating a risk status and promotes pro-active risk management.

The Risk Register is reviewed, assessed and updated on a regular basis, with each service formally documenting its key risks and potential impacts and the actions taken to mitigate those risks.