

Report of the Strategic Director Corporate Services to the meeting of the Executive to be held on 7th February 2017

Subject:

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2017/18 and 2018/19 Budget Update and Financial Outlook to 2020/21

Summary statement:

On 6 December 2016 the Executive approved amended and new budget proposals for consultation as required with the public, interested parties, staff and the Trade Unions.

This report provides the Executive with an update on national announcements and local decisions since 6 December 2016. It also identifies issues and uncertainties which could still have a bearing on the final size of the funding gap for the financial years 2017/18 and 2018/19 to be closed by Budget decisions.

Executive will need to have regard to the information contained in this report when considering the recommendations to make to Council at their meeting on 21 February 2017.

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Overview & Scrutiny Area:
Corporate



1. SUMMARY

- 1.1 This report provides an update on national announcements and local decisions taken since 6 December 2016 when the Executive approved for consultation amended and new budget proposals for 2017/18 and 2018/19. It also identifies issues and areas of uncertainty which could have a bearing on the final size of the 2017/18 and 2018/19 funding gap.

2. MAIN MESSAGES

- 2.1 The Provisional Local Government Settlement published on 15 December 2016 had several announcements that will affect Bradford Council. Whilst the actual settlement itself had some ups and downs – notably between New Homes Bonus and Adult Social Care Support Grant the net effect was relatively small compared to the forecasts in the budget consultation document. (£0.2m pressure in 2017/18 rising to £0.8m in 2018/19).
- 2.2 The main announcement was the offer to raise the social care precept by a maximum of 6% over the next three years with a maximum annual increase of 3% in any of the first two years. This provides Members with choices on the precept and these are set out in section 4.4 of this report.
- 2.3 Proposals to change the New Homes Bonus scheme were announced in the provisional local government settlement which will see a reduction in the money available nationally for this scheme as it is redirected towards pressures in Adult Social Care. The changes are set out in section 3.4 of this report.
- 2.4 The Council Tax base has been revised upwards from 133,505 Band D equivalent properties to 136,252. The net effect of this increase is £2.4m; however, this is more than offset in 2017/18 by the forecast deficit in business rates of £5.8m. Looking to 2018/19 the increase in the Council Tax Base offsets the reduction in the forecast business rates baseline which has been reduced by £2.8m.
- 2.5 Quarter 3 Financial Position Statement for 2016/17 highlights pressures in Adult Social Care and Children's Specialist services.
- 2.6 Every three years the Local Government Pension Scheme is subject to an actuarial revaluation. The budget proposals had provided for an increase in the Employer's contributions of £2.6m. The initial valuation indicated that the amount required may require a further £2.6m p.a. Discussions are currently underway on how this might be funded.
- 2.7 A small number of remaining issues will have a bearing on the overall funding gap.

These include

- Information on specific grants that will not be announced until the final settlement in February 2017.
 - The levy to be set by the West Yorkshire Combined Authority
- 2.7 The Executive will also need to have regard to the feedback received to date from the on-going consultation processes on the budget proposals when making its final

recommendations to Council.

3. NATIONAL ANNOUNCEMENTS

- 3.1 The Provisional Local Government Settlement, published on 15th December 2016, included a number of announcements that will affect the Council. The key ones are set out in the sections below. Table 1 compares the elements of the provisional local government settlement that are not directly affected by local decisions (council tax and business rates). The table illustrates that money has been diverted from New Homes Bonus to the Adult Social Care Support Grant.

Table 1 – Comparison of provisional local government settlement with assumptions used in budget consultation paper published 6th December 2016

Financial Year 2017/18	Budget consultation £m	Provisional settlement £m	Difference Shortfall/(Gain) £m
Revenue Support Grant	62.8	62.8	-
New Homes Bonus	9.1	8.3	0.8
New Homes Bonus top-slice returned	2.0	0.3	1.7
Adult Social Care Support grant	0	2.3	(2.3)
Improved Better Care Fund	1.6	1.6	-
Net difference			0.2

3.2 Social Care Precept

- 3.2.1 Given the increasing pressure on Adult Social Care budgets it was announced that local authorities with responsibility for adult social care would be able to raise the social care precept by a maximum of 6% over the next three years with a maximum annual increase of 3% in any of the first two years. The period covered by this new flexibility is 2017/18 (year 1) to 2019/20 (year 3). Therefore, if an authority chooses to use the higher precept of 3% in 2017/18 and 2018/19 then there would not be any social care precept raised in 2019/20.
- 3.2.2 The current budget proposals assumed a 2% social care precept in each of the years 2017/18 through to 2019/20. In effect the new flexibility would mean extra cash in 2017/18 and 2018/19 but by 2019/20 the Social Care Precept would be at a similar level as in the budget proposals. The extra 1% would raise an additional £1.6m annually or approximately £4.9m extra cash over the two years.

3.3 Core Spending Power

- 3.3.1 The Government uses a figure called core spending power to provide a comparison between local authorities. The elements of the core spending power does change from one year to the next but table 2 below shows the elements and the comparison between Bradford and the national average.

Table 2 – Core Spending Power published in the Provisional Local Government Settlement Dec 2016

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Settlement Funding Assessment (SFA)	211.4	192.9	182.8	173.1
Council Tax Requirement	159.9	170.6	181.9	194.0
Improved Better Care Fund (BCF)	0	1.6	9.9	17.2
New Homes Bonus (including return of top-slice)	11.4	8.6	6.3	6.1
Adult Social Care Support Grant	0	2.3	0	0
	382.8	375.9	380.9	390.3
Bradford % reduction/(increase)		1.8%	(1.3%)	(2.5%)
England % reduction/(increase)		1.1%	(1.0%)	(2.7%)

Caution should be taken with the core spending power figures as the government estimates on business rate income and council tax income differ to the assumptions used locally. Also the New Homes Bonus estimates used by the government are based on historic allocations and do not take into account in full the introduction of the national baseline.

The SFA consists of three streams:

- Business rates baseline – the Government’s estimate of what Bradford could collect in business rates – the Council uses its own local estimates
- Top Up Grant
- Revenue Support Grant

Table 3 – SFA published in the Provisional Local Government Settlement Dec 2016

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Revenue Support Grant (RSG)	83.9	62.8	48.5	34.1
Business Rates Baseline	70.5	65.6	67.6	70.0
Top Up Grant	57.0	64.5	66.7	69.0
Settlement Funding Assessment (SFA)	211.4	192.9	182.8	173.1

The RSG matches the budget proposals reflecting the Council’s successful application for the multi-year settlement which was approved by DCLG on 16 November 2016.

3.3.2 The Council Tax Requirement included in the core spending power is the Government’s estimate of what could be raised through Council Tax (including social care precept) but changes to the council tax base and local decisions on any council tax/social care precept will mean the actual figures raised will be different.

3.3.3 The Improved BCF figures match those included in the budget proposals, but it is worth noting that the Improved BCF is to a large extent being funded through the proposed reductions to the New Homes Bonus.

3.3.4 The Top Up Grant has increased and the Business Rates baseline has reduced as a result of the business rates revaluation that takes effect from April 2017. The business rates baseline also includes an increase in line with the business rate multiplier.

3.4 New Homes Bonus

3.4.1 In December 2015 the Government issued a consultation on proposed changes to

the New Homes Bonus (NHB) scheme, primarily to free up £800m nationally to redirect into the Improved BCF. In the Provisional Local Government Settlement the Government has revealed the changes to the scheme:

- Reduce the legacy payments from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19;
- A “deadweight” factor so that no NHB will be paid to a local authority for housing growth of less than 0.4%; and
- From 2018/19 the Government will withhold NHB payments that do not support housing growth. Two potential examples of this are where housing developments proceed following a successful appeal and to those local authorities that do not have an approved Local Plan. There will be further consultation on these elements.

3.4.2 DCLG when setting the national control total for NHB have top-sliced a part of local government funding. In the event that the total amount payable nationally on NHB is lower than anticipated the top-sliced NHB monies are returned to local authorities the following year. In the budget proposals an estimated amount of £2.0m was anticipated to be returned to Bradford. The provisional settlement is only returning £0.3m. In addition with the introduction of the deadweight the shortfall in the estimated NHB payable for 2017/18 is £0.8m.

3.4.3 The core spending power indicative figures for 2018/19 onwards are unreliable as they are based on historic data and do not take into account fully the introduction of the “deadweight” factor.

3.4.4 The locally revised forecast of the NHB allocations is shown in the table 4 below and shows the comparison with the forecast detailed in the budget consultation report. The forecast going forward is based on the 2017/18 allocation rather than the average of the last three years.

Table 4 – Revised NHB forecast compared to budget consultation

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Budget consultation paper published 6 December 2016	9.1	6.3	6.1	6.2
Revised forecast	8.6	5.6	5.1	4.2
Reduction in forecast	0.5	0.7	1.0	2.0

3.5 Adult Social Care Support Grant

3.5.1 Also included in the provisional settlement was a one off £2.3m grant for 2017/18 entitled Adult Social Care Support Grant to help ease the pressure on adult social care costs due to the fact that the Improved BCF is loaded towards 2018/19 and 2019/20. The Adult Social Care support grant has been funded from the savings made to the New Homes Bonus scheme.

3.6 Other Government announcements affecting specific grants and allocations

3.6.1 The Public Health grant allocation of £42.93m for 2017/18 has been published and ties up to the amount included in the budget consultation papers. This is a cut of 2.5%.

- 3.6.2 The Local Council Tax Support Administration Grant provisional allocation of £792k for 2017/18 was announced on 10th January 2017 which is a cut to Bradford of £76k (8.75%). This was anticipated in the budget proposals.
- 3.6.3 The Housing Benefit Subsidy Administration grant was announced on 21st December 2016 with £2.1m allocated to Bradford. This is a cut of 8.3%. This was anticipated in the budget proposals.
- 3.6.2 Other specific grants are unlikely to be revealed until the final local government settlement is announced.

4. COUNCIL DECISIONS

4.1 Council Tax Base

- 4.1.1 On 10th January 2017 the Executive approved the Council Tax base for 2017/18 of 136,252 Council Tax Band D equivalent properties. This is an increase of 1,997 Band D equivalent properties compared to the budget consultation documents. The effect of this is an additional £2.4m of anticipated council tax income.
- 4.1.2 In addition it is forecast that there will be a Council Tax Surplus of £2m for 2016/17 which will be available as a one off resource to support the budget in 2017/18.

4.2 Business Rates Base

- 4.2.1 In April 2017 a national revaluation of business rate properties will be applied. The Government strives to keep any revaluation of business rate properties fiscally neutral by reducing the level of the business rate multiplier. This has meant for Bradford a reduction in the level of business rates yield offset by an increase in the Top Up Grant.
- 4.2.2 There have also been movements in the Collection Fund resulting in a forecast deficit of £11.9m of which Bradford's share is £5.8m. The £5.8m deficit will affect the 2017/18 budget position. The reasons for the £5.8m deficit are set out in section 6.3 of the report to Executive Document AQ - Calculation of Bradford's Council Tax Base and Business Rates Base for 2017/18 considered by Executive on 10 January 2017 namely:
- Continuing cost estimate of appeals;
 - Lower than expected growth; offset by a
 - Reduction in the provision for unrecovered debt.

In light of the above factors the forecast business rates for 2018/19 onwards have been revisited and a reduction of £2.8m has been made to the anticipated business rate income from 2018/19 onwards.

4.3 Leeds City Region Business Rates Pool

- 4.3.1 Bradford along with the other four West Yorkshire Districts, Harrogate and York (the pool authorities) will continue to proceed with the Leeds City Region (LCR) Business Rates Pool in 2017/18.
- 4.3.2 The decision has no impact on Bradford's 2016/17 budget provided the actual

2016/17 business rates income of each of the pool authorities does not decrease by more than 7.5%. The LCR Leaders' Board Pooling Sub-committee met on 1st December 2016 and agreed the continuation of the pool into 2017/18.

4.4 Social Care Precept

- 4.4.1 The annual level of social care precept to be received by 2019/20 would be a similar amount irrespective of whether the precept rises by 2% per annum over three years or 3% p.a. for the first two years and nothing in the third year. The financial advantage of raising the social care precept to 3% in the first two years is that the additional 1% would raise approximately £1.6m per annum, so two years of a 1% increase would bring c£4.9m cash injection over 2017/18 and 2018/19.
- 4.4.2 Executive will need to consider whether to utilise the additional flexibility of raising the social care precept by 3% in 2017/18, and 3% in 2018/19 with no further increase in 2019/20.

4.5 Education Funding

- 4.5.1 The second stage of the consultation on the National Funding Formula for Schools was published on 14th December 2016 which will lead to switches between Dedicated Schools Grant (DSG) funding blocks. The proposals will have a significant impact on the landscape of funding for schools in the Bradford district.
- 4.5.2 Up until 2017/18 the Education Services Grant (ESG) consisted of two rates that funded two different services.
- The retained duties rate has gone to local authorities to fund services they provide to all schools, including academies; and
 - The general duties rate has gone to both local authorities and academies to fund services local authorities provide to maintained schools but which academies must provide themselves.
- 4.5.3 The retained duties funding rate of the ESG will be transferred into the Dedicated Schools Grant (Central School Services Block) from 2017/18. This funding stream therefore recognises that Councils still had residual responsibilities that had been funded by the ESG. The Schools Forum at their meeting on 18th January 2017 approved the full allocation of this block to the Local Authority.
- 4.5.4 In respect of the general duties the ESG will be withdrawn from September 2017. This was anticipated in the budget consultation paper and was treated as a corporate funding reduction i.e. it was not allocated specifically to Great Start Good Schools. There will be transitional grant to cover the period April 2017 to August 2017 of approximately £1.6m, subject to change for any academy conversions from 1 November 2016.
- 4.5.5 The government has also announced a New School Improvement Grant of £50m per year which will begin from September 2017 when the Education Services Grant (ESG) general funding rate is fully withdrawn. The allocation will be £1,800 per maintained school subject to a minimum contribution of £50k per local authority. It is not clear for how long this grant will be paid. It is proposed that this new funding is treated as a corporate resource rather than being specifically allocated to Great Start Good Schools to compensate for the withdrawal of the ESG general duties

funding. The provisional allocations were published on 11 January 2017 and the amount announced for Bradford is £271.5k.

4.7 New Pressures

4.7.1 Since the Executive meeting on 6 December 2016 the following new budgetary pressures have been identified and will need to be considered when setting the final budget.

4.7.2 Local Government Pension Scheme (LGPS)

Every three years the actuary of the LGPS undertakes an actuarial review to ensure that the pension fund is adequately funded and this may lead to amended Employer's contributions to the pension scheme. The scheme is currently being reviewed and in recognition of this the Medium Term Financial Strategy and Budget Consultation report anticipated a £2.6m increase in employer's contributions of an additional 1.75% of pay (from 14.20% to 15.95%). The actuarial valuation suggests an increase in the Employer's contribution to 17.6% which is double the amount provided. Discussions are continuing with the actuary and West Yorkshire Pension Fund colleagues on how this might be funded.

4.7.3 Waste Disposal costs

Procurement is currently underway for the waste disposal contract. The outcome of that procurement cannot be anticipated and no adjustment has been made to the figures contained in the report to Executive on 6 December 2016. However, the existing contractor has indicated that it is moving its operations site from Bradford to Leeds which will lead to increased haulage costs. A one off pressure of £259k is anticipated for 2017/18.

4.7.4 West Yorkshire Combined Authority Levy

The WYCA levy will be determined at a meeting on 2 February 2017. The current budget proposal 4R2 requires a reduction in the levy to Bradford of £750k in 2017/18 and a further £750k in 2018/19.

4.7.5 Visitor Promotion Funding

The time limited funding for visitor promotion events has been tapering off over the last three years with the intention that the events supported would become self financing. The Visitor Promotion Funding has been much reduced from previous years due to budgetary pressures. 2016/17 was the last year money was set aside with the following amounts allocated:

- £15k World Curry Festival
- £20k Bradford Literature Festival
- Nil for Visitor Promotion fund

Members will need to decide whether to extend the Visitor Promotion funding.

4.8 Outturn 2016/17

- 4.8.1 The Quarter 3 Financial Position Statement for 2016/17 is forecasting a near breakeven position. However, there are forecast overspends of £3.4m in Adult Services and £2.9m in Children’s Services. In Children’s Services the budget proposals provide £625k p.a. to reflect demographic growth in Children’s Services and a further £700k investment to reflect the increased cost pressures on the Looked After Children budget. In addition the budget proposals also include £2.9m in 2017/18 for Adult Demographic Growth with a further £3.0m in 2018/19.
- 4.8.2 Despite this investment the degree of cost reduction challenge is high in Adults Services and Children’s Services.

4.9 Potential Effect of Items Highlighted in this Report

- 4.9.1 The following table summarises the potential movement to the published proposed budget position. Some of these items are still provisional and subject to change before the final decision on the budget is made e.g. pension fund revaluation and specific grants.

Table 5 – Summary of potential movements highlighted in this report

	2017/18	2018/19
	£m	£m
Movements due to provisional local government settlement	0.2	0.8
Business Rates/Council Tax movements	0.8	(0.7)
Pension fund revaluation	2.6	2.6
Movements in specific grants and other one off adjustments	(0.7)	(0.1)
Potential revised budgetary gap	2.9	2.6

5. CAPITAL EXPENDITURE

- 5.1 No further schemes have been included in the capital investment plan since the publication of the budget proposals.

6. OTHER MATTERS TO TAKE INTO CONSIDERATION

- 6.1 At 31 December 2016 the unallocated reserves stood at £13.8m. The current budget proposals do not assume any call on the unallocated reserves and it is recommended that the current level of unallocated reserves are maintained at their current level given the underlying budgetary pressures facing the Council.
- 6.2 In section 9 of the report to the Executive on 6 December 2016 Doc AJ “Proposed Financial Plan 2017/18 -2020/21” the proposed re-alignment of earmarked reserves are set out to support the budget in 2017/18 by £16.8m and a further £3.5m in 2018/19. The majority of this is to fund anticipated redundancy costs of £8.8m and a transformation fund of £5.0m which will be used to support those changes which are more complex, higher risk, and where additional, temporary resource is required, should the proposals be agreed following consultation.
- 6.3 In a separate report to this meeting the Executive will consider the feedback received to date from the on-going consultation processes on the Council’s budget proposals which includes feedback received from the public, interested parties and key stakeholders and the Trade Unions and will also consider the equality implications of the proposals.

- 6.4 The nature of the consultation means that at this stage it is not possible to provide a financial assessment on the feedback received to date. In proposing the final budget the Executive will need to have due regard to the information contained within this report, the consultation feedback received to date and the public sector equality duty as set out in section 149 Equality Act 2010.

7. RISK MANAGEMENT AND GOVERNANCE ISSUES

- 7.1 The uncertainties regarding the funding that will be available to the Council are considered within this report.

8. LEGAL APPRAISAL

- 8.1 It is necessary to ensure that the Executive have comprehensive information when considering the recommendations to make to Council on a budget for 2017/18 and budget proposals for 2018/19 at their meeting on 21 February 2017. It is a legal requirement that Members have regard to all relevant information and the information in this report is considered relevant in this context.

9. OTHER IMPLICATIONS

9.1 EQUALITY & DIVERSITY

The equality implications are considered in a separate report to be presented to this meeting of the Executive.

9.2 SUSTAINABILITY IMPLICATIONS

There are no direct sustainability implications resulting from this report.

9.3 GREENHOUSE GAS EMISSIONS IMPACTS

There are no direct greenhouse gas emissions implications resulting from this report.

9.4 COMMUNITY SAFETY IMPLICATIONS

There are no direct community safety implications resulting from this report.

9.5 HUMAN RIGHTS ACT

There are no Human Rights implications resulting from this report.

9.6 TRADE UNION

The interim Trade Union feedback on the budget proposals is considered in a separate report to be presented to this meeting of the Executive.

9.7 WARD IMPLICATIONS

There are no direct ward implications resulting from this report.

10. NOT FOR PUBLICATION DOCUMENTS

None

11. RECOMMENDATIONS

Executive are asked to note the contents of this report and to have regard to the information contained within this report when considering the recommendations to make to Council on a budget for 2017/18 and budget proposals for 2018/19 at their meeting on 21 February 2017.

12. BACKGROUND DOCUMENTS

Document AJ – Proposed Financial Plan 2017/18 – 2020/21 Executive Report 6 December 2016.

Document AQ – Calculation of Bradford's Council Tax Base and Business Rates Base for 2017/18 Executive Report 10 January 2017

Document BC – Quarter 3 Financial Position Statement for 2016/17 Executive Report 7 February 2017