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Report of the Director of Finance to the meeting of the Corporate Overview & Scrutiny Committee to be held on Wednesday 19 July 2017.

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Subject:

Medium Term Financial Strategy 2018/19 to 2020/21 and beyond

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 next three 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 and recent General Election has added a further layer of uncertainty to prospects of stability in local government finances.

The forecast identifies for planning purposes that savings need to be identified of £12.4m in 2018/19 in addition to the £20.7m agreed in February 2017. In the following year the gap increases to £20.1m in 2019/20 and then up to £45.8m by 2023/24. This forecast reflects the risks associated with delivering the Council Plan 2017-2021 in particular the challenges of the costs of social care

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Stuart McKinnon-Evans
Strategic Director Corporate Services

Portfolio: Leader and Corporate

Report Contact: Tom Caselton
Phone: (01274) 434472
E-mail: tom.caselton@bradford.gov.uk

Overview & Scrutiny Area:

Corporate

1. SUMMARY

1.1 The local government sector continues to face various challenges amidst a backdrop of uncertainty. Last year the Council recognised that the financial landscape could totally shift and in response embarked on a planning journey to allocate its budget across the key priority outcomes for Bradford Council and the District. This Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan based on assumptions made from the relevant data available.

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
- A well run council

1.3 The MTFS shows a continuing reduction in the size of the Council's financial envelope and identifies an immediate need for planning purposes to identify revenue savings of a further c£12.4m in order to set a balanced Budget in February 2018. The gap rises to £20.1m in 2019/20 and continues to widen to £45.8m by 2023/24 (Appendix 1 Section 3.3 Table 4). These forecasts assume that for planning purposes additional savings are identified to reflect a proportion of the savings identified in the Quarter 1 monitor at being at risk of not being delivered, particularly those relating to social care.

1.4 Appendix 1 section 3.1 contains details of the key uncertainties associated with the forecast. Clearly Brexit and the rise of populism across the globe could impact on world trade which has introduced immediate and unquantifiable uncertainty for the national economy. Any deterioration of the national economy could lead to further austerity measures imposed on local government. As a reminder in the Spring 2017 budget central government still has £3.5bn of unallocated savings efficiencies to be achieved by 2020. An update on this is expected in the Autumn 2017 budget.
The impact on local government finances and responsibilities following the recent general election and the subsequent Brexit negotiations is unclear, especially in relation to the hitherto anticipated reform of business rates.

1.5 If a percentage of the social care savings cannot be made then the reductions required from other service areas would lead to a fundamental reshaping of the Council to become in essence a social care provider, with very limited capacity to undertake other functions central to its wider ambitions.

1.6 The Council successfully applied for a multi year settlement which provides a certain level of comfort on the rate of decline of the Revenue Support Grant (RSG) up to and including 2019/20, although this is always subject to change from unforeseen events.

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 given the uncertainty on any reforms to local government financing this forecast is based on the current system.

2.3 The MTFS (Appendix 1) comprises three sections

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

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

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 and unallocated national efficiency targets (£3.5bn)
- 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.

5.2 Specific risks in the plan are set out in section 3.1 of Appendix A.

5.3 The MTFS basic premise is that approved local savings plans will be delivered on time and in full. For planning purposes a proportion of the savings identified at risk of not being delivered have been incorporated into the budgetary gap to be closed. See Table 4 in section 3.3 of Appendix 1.

6. LEGAL APPRAISAL

6.1 This report is submitted to the Executive in accordance with the Budget and Policy Framework Procedure rules.

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 This report sets out the assumptions for budget planning purposes and therefore does not include any options.

10. RECOMMENDATIONS

10.1 The views and comments in relation to the Medium Term Financial Strategy are sought from members.

11. APPENDICES

11.1 Appendix 1 Medium Term Financial Strategy 2017/18 to 2020/21, including the annexes to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Council Budget Report 23rd February 2017 Document W

12.2 Introduction of Compulsory National Living Wage Executive report 3 November 2015 Document AE

12.3 2017/18 and 2018/19 Budget Update and Financial Outlook to 2020/21 Executive report 7 February 2017 Document AZ

City of Bradford Metropolitan District Council

Medium Term Financial Strategy

2018/19 – 2023/24

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
- 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
- A well run council

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 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

- **Working together** – working closely with partner organisations, business, communities, families and individuals to make the most of all our district's resources, assets and opportunities

- **Equality** – making sure that council activity helps to reduce inequality, provides opportunities for everyone and builds an economy that works for us all

- **People in charge of their own lives -** supporting wellbeing and independence through early action to prevent problems developing or stop them getting worse.

- **Every pound counts** – using money wisely and targeting resources at district priorities while supporting the development of cost-effective and innovative solutions

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.

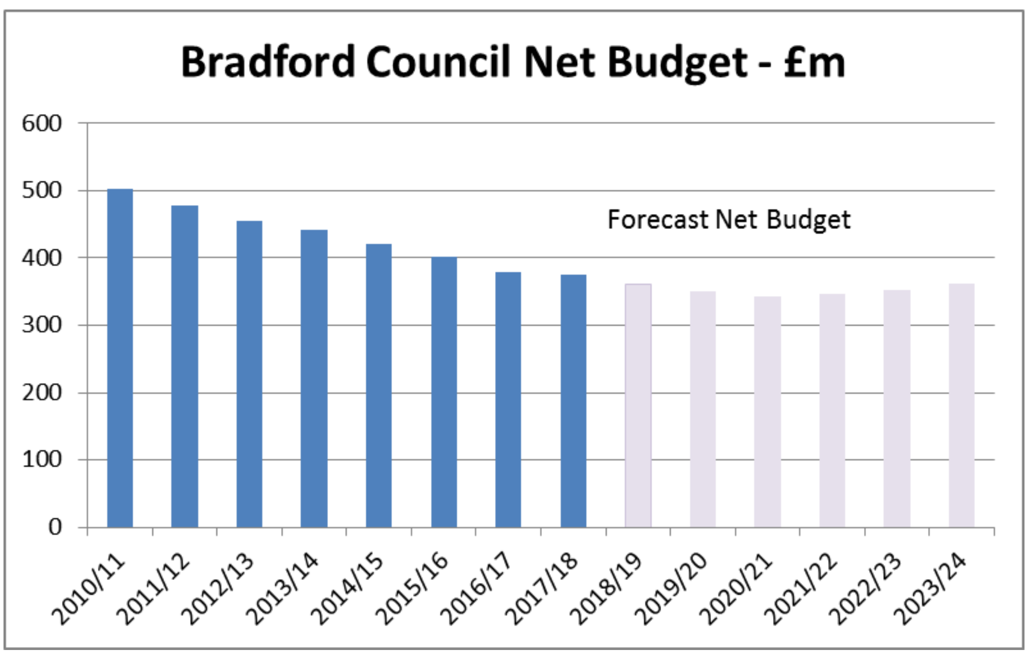
MEDIUM TERM FINANCIAL FORECAST AND GAP ANALYSIS

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. Table 3 shows the additional pressures identified since the budget was approved by Full Council and Table 4 shows the forecast budgetary gap to be closed for planning purposes.

2.2 The starting point for the Forecast is the current financial structure of the Council, which is analysed in Annex A which assumes that the Service and non-Service savings approved by Council in previous years will be achieved in full (£58.2m). The Quarter 1 financial monitor report indicates that we are already seeing potential slippage in the savings profile and unless these are brought back on track then additional pressures will need to be included in future financial plans. As a result for planning purposes and additional amount has been incorporated into the forecast budgetary gap.

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 recent general election, the previously announced significant changes planned for local government finance could be delayed or amended and consequently the impact on Bradford is currently unknown. In Annex B the material factors that are likely to affect the Council's spending forecasts are set out.

2.4 In 2010 the Council's adjusted net budget was in the region of £500m, it is now £375m. The forecast net budget in this forecast is set out below:



2.5 In the five years from the beginning of 2011/12 to 2016/17 the Council has implemented a series of measures to its net budget of £218.4m. Further reductions of £37.5m (including £1.1m of further Public Health grant cuts) are being applied during 2017/18 taking the total measures to £256m.

2.6 On 23 February 2017 the Council agreed further savings for 2018/19 of £20.7m. Assuming that the Council raises Council Tax in 2018/19 by 1.99% and also applies the social care precept of 3% in full, the deficit still to be closed in 2018/19 is forecast to be £12.4m.

2.7 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 £45.8m by 2023/24. Clearly the result of the EU referendum and the recent general election has brought further uncertainty and it is too early to understand the implications of these factors.

Table 1 Cumulative Medium Term Forecast

	2018-19 Forecast £'000	2019-20 Forecast £'000	2020-21 Forecast £'000
NET EXPENDITURE			
2017/18 Base Budget	375,197	375,197	375,197
Reversal of non recurring investment	(1,575)	(2,025)	(2,025)
Full year effect of recurring pressures	2,305	2,826	3,366
Sub total	375,927	375,998	376,538
FUNDING CHANGES			
Education Services Grant	1,182	1,182	1,182
Independent Living Fund	63	122	179
Local Council Tax Support and Housing Benefit Admin	300	600	900
Local Reform and Community Voices	23	23	23
New Homes Bonus Grant	3,520	5,128	6,943
Return of New Homes Bonus Top Slice	314	314	314
Dedicated Schools Grant	482	3,089	3,089
Improved Better Care Fund	(14,869)	(18,837)	(15,590)
Adult Social Care Support Grant	2,307	2,307	2,307
S31 grants	(135)	(169)	(257)
Public Health Grant	1,116	2,203	2,203
Sub total	(5,697)	(4,039)	1,293
INFLATION			
Pay Award, (1.0%)	2,445	4,911	7,399
National Living Wage	800	2,700	4,900
Contract Price Indexation (2.5% in 2017-18, 2.0% thereafter)	8,169	15,389	22,704
Income (0.5%)	(538)	(1,078)	(1,621)
Base Net Expenditure Requirement	381,106	393,881	411,213
Demographic Pressures in Adults	2,993	6,045	9,160
Looked After Children demographic growth	625	1,250	1,875
Better Care funding to protect Adult Social Care	6,556	3,248	0
Public Health reduction expenditure in line with reduced grant	(1,116)	(2,203)	(2,203)
Termination costs	(4,342)	(4,342)	(4,342)
Amended 2016/17 Budget decisions	(440)	(440)	(440)
Budget decisions approved in Feb 2017 for 2018/19	(19,149)	(19,149)	(19,149)
Indicative savings per budget report	0	(19,705)	(46,539)
Transitional reserve expenditure coming to an end	(235)	(235)	(235)
Transformational Funding	0	(2,500)	(2,500)
Net Expenditure Requirement	**365,998**	**355,850**	**346,840**
RESOURCES			
Localised Business Rates	(64,747)	(66,042)	(67,363)
Top Up Business Rate Grant	(66,587)	(68,956)	(70,335)
Revenue Support Grant	(48,539)	(34,054)	0
Use of Reserves - Earmarked	(677)	3,540	(4,082)
Council Tax Income	(180,928)	(185,538)	(190,260)
Total resources	**(361,498)**	**(351,050)**	**(332,040)**
Budget shortfall carried forward to Table 4	**4,500**	**4,800**	**14,800**
Memorandum			
Council tax base	137,002	137,752	138,502
Council tax Band D	£1,320.62	£1,346.90	£1,373.70

Table 2 Cumulative Six Year Outlook

	2018-19 Forecast £'000	2019-20 Forecast £'000	2020-21 Forecast £'000	2021-22 Forecast £'000	2022-23 Forecast £'000	2023-24 Forecast £'000
NET EXPENDITURE REQUIREMENT	**365,998**	**355,850**	**346,840**	**355,947**	**365,284**	**374,941**
RESOURCES						
Localised Business Rates	(64,747)	(66,042)	(67,363)	(68,710)	(70,084)	(71,486)
Top Up Business Rate Grant	(66,587)	(68,956)	(70,335)	(71,742)	(73,177)	(74,640)
Revenue Support Grant	(48,539)	(34,054)	0	0	0	0
Use of Reserves - Earmarked	(677)	3,540	(4,082)	0	0	0
Council Tax Income	(180,928)	(185,538)	(190,260)	(195,096)	(200,050)	(205,124)
Total resources	**(361,498)**	**(351,050)**	**(332,040)**	**(335,548)**	**(343,311)**	**(351,250)**
Budget shortfall	**4,500**	**4,800**	**14,800**	**20,399**	**21,973**	**23,691**
Memorandum						
Council tax base	137,022	137,752	138,502	139,252	140,002	140,752
Council tax Band D	£1,320.62	£1,346.90	£1,373.70	£1,401.03	£1,428.91	£1,457.34

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 Statements in March 2016 and 2017 inevitably means the numbers of uncertainties, sources of risk attached to the forecast are significant. The result of the general election has amplified the uncertainty as the timing and impact of policy changes are unclear.

Further risks associated with the forecast:

- 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, 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 £2.5m and a 1% change in prices would have a £2.2m 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
- Reductions in the West Yorkshire Transport levy incorporated in the budget savings of the Council
- Impact of demographics in terms of both additional demand and additional growth
- The potential costs of transition and restructuring

KEY MOVEMENTS FROM 2017/18 BUDGET

3.2 The key changes from the budget assumptions are set out in the Table 3 below.

Table 3 – Movements from Approved Budget Forecast	2018/19	2019/20	2020/21
	£m	£m	£m
Budget Shortfall per Budget Document 'W' 23 February 2017	**0**	**0**	**0**
Savings not identified for 2020/21 (Annex B 5.7)	0	0	4.5
New Homes Bonus Reduction as a result of deadweight (Annex C 7.1c)	0.8	2.0	2.9
Amendments to indexation assumptions (Annex B 5.1)	1.4	1.8	(0.1)
No social care precept 2020/21 (Annex C 6.2b)	0	0	3.7
Anticipated incremental cost of new waste disposal contract (Annex B 5.5)	1.7	2.2	2.8
Additional money for prudential borrowing on Refuse Collection Vehicles (Annex B 5.5)	0.3	0.3	0.3
Provision for monies to tackle Child Sexual Exploitation (Annex B 5.5)	0.3	0.3	0.3
Movement on reserves	0	(1.8)	0.4
Revised budgetary gap per MTFS – Table 1	**4.5**	**4.8**	**14.8**

3.3 There are some savings agreed in the budget that are at a potential risk of not being delivered to plan as outlined in the Quarter 1 report. If we assume that a percentage of these are at risk of not being delivered then it would be prudent to start planning now for an increased budgetary gap.

However, this would mean that the Council would be unable to undertake any further capital schemes which are not in the existing Capital Investment Plan, unless they were fully self financing from day one. It also means that any invest to save projects must deliver their revenue savings to service the capital financing requirements.

Table 4 – FORECAST BUDGETARY GAP TO CLOSE

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
Budget Shortfall per Tables 1 & 2 above	**4.5**	**4.8**	**14.8**	**20.4**	**22.0**	**23.7**
Additional budgetary pressure from savings at risk – see section 5.7	7.9	15.3	22.1	22.1	22.1	22.1
Revised budgetary gap	**12.4**	**20.1**	**36.9**	**42.5**	**44.1**	**45.8**

4.1 ANNEX A: CURRENT COST AND RESOURCE STRUCTURE AND SAVINGS APPROVED 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 £1.2bn of spend, it cannot spend directly £325m which is controlled by schools. This leaves, in 2017/18, a gross expenditure budget of £860m (£375m net expenditure) to fund non school activity.

2017/18	**Gross Exp £m**	**Net Exp £m**
Council Services	860.3	375.2
Schools	325.4	0
	1,185.7	375.2

If the £170m spent on benefit payments, the £35m required to meet the cost of the long term PFI contracts, the £24m levy paid to the West Yorkshire Combined Authority (WYCA), the £43m that must be spent on Public Health activity and the £43m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £545m, from which to drive out further savings.

Of the net budget of £375m 28.6% is allocated to Health and Wellbeing. 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.

2017/18 Budget	**Gross £m**	**Net £m**	**% of net budget**
Health and Well Being	212.6	107.5	28.6%
Children's Services	472.5	74.6	19.9%
Capital Financing and WYCA	66.8	66.8	17.8%
Place	117.4	63.0	16.8%
Corporate	267.4	44.1	11.8%
Non Service	33.7	9.0	2.4%
Travel Assistance	11.5	6.6	1.8%
Chief Executive	3.8	3.7	1.0%
	1185.7	**375.2**	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 Budget 2017/18	**Gross £m**	**Net £m**	**% of net budget**
Better health and better lives	439.0	168.3	44.9%
A well run council	87.4	55.1	14.7%
Better skills, more good jobs and a growing economy	94.8	45.0	12.0%
Fixed	75.4	43.7	11.6%
Safe clean, active communities	61.0	38.2	10.2%
Good schools and a great start for all our children	424.5	22.0	5.9%
Decent homes that people can live in	3.6	3.0	0.8%
	1185.7	**375.2**	100.0%

The analysis illustrates that 45% 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 2017/18, 61% of the Council's net expenditure is funded from Council tax (46%) and locally retained Business Rates (15%). As explained in Annex C there is currently work being undertaken on the development of the business rates reforms. These reforms were expected to be implemented by April 2020 but given the recent general election and Brexit negotiations elements of these reforms are likely to be delayed and some suspended. Given the significance of these reforms the analysis below is 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 2017/18	**Gross £m**	**%**	**Net £m**	**%**
Schools Grants	325.4	27%	-	0%
Other Government Grants	283.7	24%	-	0%
Fees, Charges, Contributions	201.5	17%	-	0%
Council Tax and previous year surplus	173.4	15%	173.4	46%
Government "Top Up" Grant	64.5	5%	64.5	17%
Revenue Support Grant	62.8	5%	62.8	17%
Business Rates and previous year deficit	57.6	5%	57.6	15%
Use of Reserves	16.8	1%	16.8	4%
	1185.7	**100%**	**375.2**	**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:

- Whilst the Council might choose to increase Council Tax current rules require a referendum for increases above 2%.
- Council Tax income today makes up 46% of the net budget. It rises to 58% by 2023/24
- Localised business rates are around £58m today – the aim is to grow them to £71m by 2022/23, around 22%.

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

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m	£m
Revenue Support Grant	63	49	34	0	0	0	0
Localised Business Rates	58	65	66	68	69	70	71
Government Top Up Grant	64	66	69	70	72	73	75
Use of Reserves	17	0	(3)	4	0	0	0
Council Tax	173	181	185	190	195	200	205
Total	**375**	**361**	**351**	**332**	**336**	**343**	**351**

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

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue Support Grant	17%	14%	10%	0%	0%	0%	0%
Localised Business Rates	15%	18%	19%	21%	21%	21%	21%
Government Top Up Grant	17%	18%	20%	21%	21%	21%	21%
Use of Reserves	4%	0%	-1%	1%	0%	0%	0%
Council Tax	46%	50%	53%	57%	58%	58%	58%
Total	100%	100%	100%	100%	100%	100%	100%

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 approved to date

Seven consecutive years of reductions in Government funding, and inflationary and demographic pressures have required the Council to approve savings over the period of £255.9m.

	2011-12	2012-13	2013-14	2014-15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Savings	48.7	28.5	26.1	31.8	37.7	45.6	37.5	255.9

By 2023/24 it is estimated that to balance the books over £155m more in savings and additional income (41% of the current net budget) will have to be found – on top of the £255.9m 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 and raising income totalling 41% of the current net budget may mean that it will no longer be possible to protect all frontline services.

ANNEX B: EXPENDITURE FORECAST ASSUMPTIONS

5.1 Inflation

a) Pay

Although the Council does not receive any specific funding for pay awards an amount equivalent to 1.0% for 2018/19 and for each year up to 2023/24 has been included in the calculations. Services are expected to absorb incremental increases. In addition there has to be recognition of the continuing impact of the National Living Wage based on the forecasts contained in the report to Executive on 3rd November 2015 (Document AE).

b) Non Pay

The Bank of England published their forecast of CPI in May 2017, which indicated that inflation would be close to 3% by the end of 2017/18. Given this, an inflation rate of 2.5% has been assumed for contract inflation as the average rate during 2018/19, levelling off at 2.0% in future years. Provision has been made for Premises and Transport costs which have been increased by 2.5% in all years.

In the budget papers approved by Budget Council in February 2017 an additional amount of non pay inflation was provided for Adult Social Care funded by the social care precept of £2.5m p.a. for three years.

In recognition of difficult trading conditions, all Services inflation increases to their income budgets are factored in 0.5% per annum.

5.2 Pension Contribution Rates

The next Actuarial Valuation will take place in December 2019. Employers' pension contribution rates have been fixed at 17.5% until the end of 2019/20. The forecast assumes that further provision will have to be made in 2021-22 to address the service pension deficit. Clearly many factors on the performance of the pension scheme can vary over the next three years. A provision for increased contributions of £3.5m has been included from 2021/22.

5.3 Apprenticeship levy

The Apprenticeship levy was introduced from April 2017 at 0.5% on all pay subject to National Insurance. The estimated cost to the Council (excluding schools) is £1m p.a. It is assumed that any training costs for apprentices are entirely funded from the levy itself and no provision has been made for any extra training costs.

Following the introduction of the Enterprise Act 2016 a government consultation on apprentices set a target of 2.3% of the workforce for Councils with more than 250 employees. No provision has been made for any extra employment costs as a result of this target. It is assumed that the target will be met through staff turnover and converting existing posts into apprenticeships.

5.4 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.

5.5 Demand-Led Service Pressures

As in previous years extra money of approximately £3m p.a. has been included to reflect the increased pressure on Adult Social Care services from demographic trends in the next three years and then £1.5m p.a. thereafter. No additional money has been included to assist Adult Social Care and this forecast assumes that the current amount of funding from Health Partners will continue to be received.

An amount of £625k p.a. has been included for demographic pressure on Looked After Children.

In addition £300k p.a. has been provided to tackle Child Sexual Exploitation making permanent the two year temporary funding included in the Council 2015/16 budget proposals.

A procurement exercise has been undertaken to secure a 12 year contract to secure an outlet for household waste disposal and recycling. An estimate has been provided in the MTFS which includes the anticipated increased costs and the anticipated increase in tonnages. This provision also includes an estimate of inflation on this contract which has not been included in the Non Pay inflation calculation.

A further pressure of £288k p.a. has been included in the MTFS to reflect the prudential borrowing costs for the replacement of refuse collection vehicles. No additional money has been put aside for the on-going waste minimisation programme as this is time limited and will be funded from the waste minimisation reserve,

5.6 West Yorkshire Transport Levy

The budget proposals agreed in February 2017 are seeking a reduction in the levy of £1.234m in 2018/19 followed by reductions of £0.75m in the years 2019/20 and 2020/21. However, discussions are required on how to bridge the funding gap to deliver the £1.4bn Transport Fund. Initial estimates were that a further £1.3m would be required form Bradford by 2024/25 (an average increase of £140kp.a.). No provision has been made for increased contributions in respect of the Transport Fund and the reductions in the levy are still required to be made.

5.7 Service and Non Service Saving Proposals

The Forecast in Table 1 assumes that the Service and Non Service savings of £58.2m, approved by Council, covering 2017/18 and part of the gap for 2018/19 will be achieved in full. There are already indications in the Q1 forecast report that the achievement of these savings is proving to be challenging.

Table 3 shows that new pressures will require to be addressed but in addition for planning purposes it is recommended that additional savings plans are developed now in the event that some of the existing savings proposals are at risk of not being delivered.

Table 4 shows that for planning purposes if it is assumed that a proportion of the savings identified at being at risk of not being delivered to plan are factored into this forecast the revised gap increases from the £4.5 m in 2018/19 to £12.4m rising to £20.1m in 2019/20 and £36.9m in 2020/21.

This assumes that the general contingency of £2m and savings from capital financing are factored in. There will be no headroom in the Capital Investment Plan for any new schemes or increases in existing schemes unless they are fully self financing from day one or existing schemes are replaced.

5.8 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.

5.9 Better Care Fund (BCF)

The 2017/18 Base Budget includes a £4.0m contribution from the Better Care Fund to support Adult Social Care Services over and above the mandatory contribution. The forecast is reliant on this funding continuing.

The Local Government Settlement provided an estimate for an Improved Better Care Fund (iBCF) 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 iBCF is being funded through the reductions to the amounts of New Homes Bonus paid. The full amount of the iBCF announced in the Local Government Settlement has been included as funding to the Council and is being used towards funding for demographic growth and cost pressures.

The amounts included in this forecast are set out below:

	2017/18	**2018/19**	**2019/20**
	£m	**£m**	**£m**
Improved Better Care Fund	1.6	9.9	17.2

Source: Final core spending power supporting information published by DCLG Feb 2017

In the Spring Budget 2017 the Chancellor announced additional temporary contributions to the Improved Better Care Fund in recognition of the back-loading of the original iBCF allocations and the immediate problems facing Adult Social Care.

The temporary amount of funding announced is shown below:

	2017/18 £m	2018/19 £m	2019/20 £m
Additional Temporary Improved Better Care Fund	10.5	6.5	3.2

In this forecast it is assumed that the temporary funds will be used in full for transformational activity and dealing with pressures in the system i.e. there is no reduction in the size of the budgetary gap facing the Council.

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.

5.10 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 proposed cap on care costs until further information is revealed in the proposed Green Paper announced during the General Election.

5.11 Independent Living Fund

For 2017/18 the Council will receive a grant of £2.0m 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.

The impact of the National Living Wage on the NJC pay scales may lead to an increase in costs for the council.

5.12 Devolution

For the purposes of the Forecast in this document, no assumptions, either positive or adverse have been made about the financial consequences of any devolution deal that could affect Bradford.

ANNEX C: RESOURCE FORECAST ASSUMPTIONS

6.1 National influences

The Local Government Settlement and the Spring Budget 2017 have both outlined that continuing measures will be applied to return public finances to a sustainable level in the long term. 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 Brexit negotiations bring 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.

a – Business Rates Reform

As reported previously the government was undertaking work on reforming business rates. This work consisted of three streams:

- Fundamental Review of Relative Need
- Reset of the Business Rates Baseline
- 100% rates retention

It is unclear which elements of the proposed business rate reforms will be implemented or modified given that the Local Government Finance Bill fell on the dissolution of Parliament before the general election and did not feature in the June 2017 Queen's Speech. This forecast has made no assumptions on the impact of any business rates reforms on the Council.

The fundamental Review of Relative Need and reset of the Business Rates Baseline do not require primary legislation, so they could still have an impact but this has been assumed to be cost neutral to Bradford for the purposes of this forecast.

b– Revenue Support Grant (RSG) (7% of 2017/18 gross funding excluding schools and 17% of 2017/18 net expenditure)

The Council successfully applied for the multi year settlement which provided some certainty on the Revenue Support Grant (RSG) and the rate of reduction during the period to April 2020. The multi year settlement may be adjusted due to unforeseen circumstances and with the uncertainty for the national economy resulting from Brexit negotiations could result in changes to local government finances if the national economy does not perform as well as forecast. The next national budget will be in Autumn 2017 and further adjustments may be announced then together with the government's update on the efficiency savings of £3.5bn which are currently unallocated to government departments.

Since the Council budget was set in February 2017 further papers have been issued regarding the potential business rates reforms and these indicate that Revenue Support

Grant will be one of the grants that will be rolled into the retained business rates. Given that there is uncertainty on the extent of business rates reforms it is unclear whether Revenue Support Grant will still be abolished from April 2020.

However, for the purposes of this forecast we have assumed that RSG will fall to zero. This assumption will be kept under review.

c- Schools National Funding Formula and Academisation

The academisation programme will continue to 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.

6.2 Local Influences

a) Business Rates (7% of 2017/18 gross funding excluding schools and 15% of 2017/18 net expenditure)

As previously noted the landscape for business rates is potentially going to change which makes the forecasting of the business rate income difficult. Following the general election and the June 2017 Queen's Speech the extent of business rates reform is now uncertain as some of the elements do not require primary legislation whereas other elements of the proposed reforms would. 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 1.1c 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 2017/18 the Council is to receive £7.2m 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 2017 budget.

Nothing has been provided for the Business Rates Transitional Relief Scheme as it is assumed that government funding is sufficient to cover the costs of the scheme.

The cost of appeals against the 2010 rating list continues to adversely affect the Council's Business Rate Income. At 31 March 2017, based on information provided by the Government's Valuation Office Agency, there were 1,520 appeals outstanding with a rateable value of £159m. To cover the cost of settling these appeals an estimated £11.8m 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 2017. Bradford's share of which

(49%) will be recouped in 2017/18 from locally retained Business Rate 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 2017/18 gross funding excluding schools and 46% of 2017/18 net expenditure)

For 2017/18 the limit on raising council tax remained at 2% and it is assumed that this referendum limit will remain during the period covered by this forecast. With a 2017/18 Band D Council tax of £1257.86 (including the social care precept of 3.0%) the Council continues to set one of the lowest Band D Council Taxes of all Metropolitan Districts. (5th lowest in 2017/18)

In total the Council budgeted to raise £171m in Council Tax in 2017/18.

The government announced in the local government settlement the flexibility to raise the social care precept by 3% in 2017/18 and 2018/19 with no increase in 2019/20. The government have made no commitment to the ability to raise a social care precept beyond April 2020 so no further social care precept increase have been assumed in this forecast. This has led to a change in the forecast for 2020/21 of £3.7m.

Any future increase in Council Tax will be consulted on as part of the Budget process. In February 2017 Full Council indicated a 3.99% Council Tax rise for 2018/19. This figure has been included in this forecast with further increase of 1.99% p.a. for subsequent years. If no council Tax increase were made the budgetary gap by 2023/24 would increase to £42m.

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 continuing to increase at this level in subsequent years. This may prove to be a relatively cautious estimate and will be kept under review as the Local Plan is implemented. The New Homes Bonus forecast in section 2.1c is based on this forecast increase in Band D properties.

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 124,383 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 2017/18

	A*	A	B	C	D	E	F	G	H	Total
Equivalent number of properties	91	57,155	34,862	32,275	15,225	10,988	5,274	3,328	237	159,436
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	51	38,104	27,115	28,689	15,225	13,430	7,618	5,546	474	136,252

7.1 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.

	2017/18 £m
Local Council Tax Support and Housing Benefit Admin Subsidy	3.6
Public Health Grant	42.9
Adult Social Care Support Grant (one off temporary funding)	2.3
New Homes Bonus	8.3
Returned New Homes Bonus top sliced monies	0.3
Section 31 Business Rates Compensation	
Small Business Rates	7.2
Top Up and Multiplier 2% Cap	1.9
Total	**69.2**

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 £42.9m in 2017/18. The Head of Public Health England previously indicated the probable level of cuts to the Public Health grant up to and including 2019/20 and 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.

This forecast assumes that the level of Public Health funding will remain cash flat post 2020.

b) Education Services Grant (ESG)/School Improvement Grant

The retained duties element of the Education Services Grant is now funded through the Dedicated Schools Grant and will therefore be subject to recommendations from the

Schools Forum. It is assumed that £1.4m will continue to be paid to the Council in respect of retained duties on a cash flat basis.

The general duties element of ESG is being withdrawn from September 2017 and no income has been recognised for this. There has been no indication whether the School Improvement Grant will continue to be paid and nothing has been included in this forecast. If the grant is continued to be paid it is recommended that this is treated as a corporate resource in line with the treatment of the ESG.

c) New Homes Bonus Grant

The Spring 2017 Budget saw the introduction of the reform to the New Homes Bonus (NHB) that had previously been consulted on. The changes to the NHB were:

- 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.

The forecast of the NHB reflects the reduction in the legacy payments down to four years together with the deadweight factor. No reduction in the forecast has been made for any potential NHB being withheld due to the Council not supporting housing growth. As can be seen in the table below the forecast amount of NHB is dramatically reduced due to the introduction of the deadweight factor.

Forecast New Homes Bonus

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m	£m
Yr1	1.756						
Yr2	1.863						
Yr3	1.708	1.708					
Yr4	1.916	1.916	1.916				
Yr5	1.004	1.004	1.004	1.004			
Yr6 est		0.100	0.100	0.100	0.100		
Yr7 est			0.101	0.101	0.101	0.101	
Yr8 est				0.101	0.101	0.101	0.101
Yr9 est					0.102	0.102	0.102
Yr10 est						0.104	0.104
Yr11 est							0.106
Total payable	**8.249**	**4.729**	**3.121**	**1.306**	**0.404**	**0.408**	**0.413**

The dramatic reduction in the forecast NHB will mean that the potential to use this source of funding to bolster s106 receipts will need to be reconsidered.

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 £300k p.a. 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.

8.1 Schools Funding

Of the Council's gross spend of over £1.2bn, £325.4m is spent by schools and funded from the ring fenced grants, Dedicated Schools Grant (DSG), Pupil Premium and Post 16 funding.

The national funding formula for schools and academies is currently at second stage consultation. It is expected that an announcement confirming the arrangements and timescale for implementation will be made in early autumn.

9.1 Reserves

At the start of year, the Council has £14.5m of unallocated reserves (1.7% 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". This recommendation was reiterated in their report in September 2016. Consequently this forecast assumes that no calls on the unallocated reserves are made during this forecast period.

In the budget papers it was assumed that in the two year period 2018/19 and 2019/20 reserves would be replenished by £7.3m. Given the new pressures identified in this forecast this has been reduced to £5.5m.

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.

10.1 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.