

Report of the Assistant Director Finance and Procurement to the meeting of Executive to be held on 6 February 2018.

AT

Subject:

2018-19 Budget Update

Summary statement:

On 5 December 2017 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 5 December 2017. It also identifies issues and uncertainties which could still have a bearing on the final size of the funding gap for the financial years 2018/19 and 2019/20 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 20 February 2018.

Andrew Crookham
Assistant Director Finance and
Procurement

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

Portfolio:

Leader of Council

Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 This report provides an update on the national announcements and local decisions taken since 5 December 2017 when the Executive approved for consultation amended and new budget proposals for 2018/19 and 2019/20. It also identifies issues and areas of uncertainty which could have a bearing on the final size of the 2018/19 and 2019/20 funding gap.

2. MAIN MESSAGES

- 2.1 The Provisional Local Government Settlement published on 19 December 2017 had several announcements that will affect Bradford Council.

- Increase in the Council Tax Referendum limit by 1% to 3%;
- No change to the social care precept rates;
- No new money from central government;
- Approval of the Leeds City Region 100% business rate pool;
- Proposed changes to the Business Rates Retention from 50% to 75%;
- Consultation on the introduction of new Fair Funding formula

- 2.2 Pay Offer announced on 5 December 2017 potentially adding extra £5m over and above the amount provided in the budget consultation papers.

- 2.3 The West Yorkshire Combined Authority budget papers only suggest a £1m reduction in the levy in 2018/19 and 2019/20 which will fall short of the savings outlined in the budget consultation paper.

- 2.4 The Financial Position Statement for the Third Quarter continues to highlight pressures within Adults and Children's Social care and increasing pressure on waste disposal.

- 2.5 If the additional Council Tax referendum limit is accepted then there is a potential £0.3m gap for 2018/19 rising to £4.5m in 2019/20 (please see section 4.5 Table 1). This assumes that savings plans not addressed in the 5th December 2017 budget paper are delivered in full in 2018/19 onwards. The Quarter 3 Finance Statement for 2017/18 highlights that currently there is £23.5m of savings plans that are being undelivered.

3. NATIONAL ANNOUNCEMENTS

3.1 Local Government Pay Offer

On 5 December 2017 the NJC Pay Body made a two year pay offer to the staff side that is currently being considered by the Trade Unions. It is expected that the outcome of the deliberations will be known close to the beginning of April 2018. The pay offer would provide all staff covered by NJC terms and conditions who are paid more than £19,143 per annum a pay rise of 2% in 2018/19 and a further 2% in 2019/20. For lower paid staff the pay offer ranges from 3.7% to 9.3% in 2018/19 and 2.6% to 5.9% in 2019/20. 2019/20 will also see the introduction of a new spinal column point structure to deal with the compacting of differentials for lower paid staff.

In the budget consultation paper, money had been provided for a general pay award of 1% in both 2018/19 and 2019/20 plus additional money for the Bradford living wage. If the current pay offer is accepted by the Trade unions this will add £2.9m to the costs of the Council in 2018/19 and a further £2.1m in 2019/20.

Unlike for the NHS no additional money has been provided by central government to fund this pay award so it will need to be funded from local resources, either increasing revenues or cutting further costs/services.

3.2 Provisional local government settlement

The provisional local government settlement was announced on Tuesday 19 December and the consultation will formally close on 16 January 2018 with the final settlement expected to be laid before Parliament in February 2018.

Key announcements from the provisional settlement were:

- 3.2.1 Fair funding Review - DCLG has published a consultation on new funding methodology with funding changes anticipated to take place from 2020-21. The consultation paper gives a significant amount of weight to identifying key drivers of cost which might result in a flatter formula that could favour lower needs authorities. DCLG have commissioned work to investigate further the key cost drivers in relation children's social care.
- 3.2.2 Multi Year Settlement – 2018/19 is the third year of the multi year settlement offer. Given the announcement regarding the fair funding review and change to business rate retention due to commence from April 2020 and a refreshed Spending Review due there is no certainty about the level of central government funding for local authorities post April 2020.
- 3.2.3 Council Tax Referendum limit - the limit at which a metropolitan local authority must hold a referendum on council tax rises has been increased for 2018/19 by 1% to 3%. This is in addition to the Adult Social Care Precept. The rationale for the increase in the referendum limit is that CPI is currently running at 3%. This freedom is currently only for 2018/19 and will be reviewed again next year. It is possible that the referendum limit may increase or potentially fall back to 2% or less.
- 3.2.4 Parish Council precepts – the Government was to review whether Town and Parish Councils were demonstrating restraint in setting their local precept. The provisional settlement has announced that the setting of referendum principles for Town and Parish Councils will be deferred for three years. This is conditional on the sector demonstrating clear evidence of restraint.
- 3.2.5 Adult Social Care Precept - there have been no changes to the previously agreed freedoms on the Adult Social Care Precept which the Council approved in principal at 3% in the February 2017 Budget Council.
- 3.2.6 Adult Social Care Green Paper – the green paper on Adult Social Care that was due in 2017 is now expected to be published in the summer of 2018. Whilst the scope of the paper has not been set out it is likely that this will concentrate on client contributions rather than funding of the sector as a whole.

- 3.2.7 Improved Better Care Fund – no changes to the allocations of previously announced Improved Better Care fund were made.
- 3.2.8 New Homes Bonus - no new changes in the way the New Homes Bonus works and the baseline will be retained at 0.4%. This leaves the New Homes Bonus in line with expectations. There was £0.1m of returned top slice of New Homes Bonus that has not been budgeted for. All of the New Homes Bonus grant is being used to support the 2018/19 and 2019/20 budget.
- 3.2.9 Planning Fees – from 1st January 2018 Planning Authorities will be able to increase their planning fees by up to 20% provided the increased fee income is reinvested into the planning service.
- 3.2.10 Business Rates Retention – It is proposed that from April 2020 the local government share of retained business rates will increase from 50% to 75%. Despite lobbying from the Local Government Association and local authorities this increased retention will come with additional burdens. As part of the new burdens it is likely that the Public Health Grant and other funding streams will end and have to be funded from the increased rate retention. It is not yet possible to determine what this will mean for Bradford as the business rate redistribution mechanism will have to be recalibrated. Until further detail is known it is suggested for planning purposes that this will be cost neutral for Bradford when it is implemented.
- 3.2.11 100% Business Rate Pilots – the Leeds City Region (LCR) 100% Business Rate Pilot was approved by DCLG. This means that if the seven member authorities of the pilot accept DCLG's offer they will forego their Revenue Support Grants and in return for retaining 99% of any growth or in the unlikely event dealing with any deficit. Further work is currently underway to repopulate the pilot model with updated NNDR1 figures and also s31 grant allocations. The proposed sharing mechanism is that 50% of the growth will be retained by the LCR pool and distributed by agreement of the members of the pool. The remaining 50% will be distributed on the basis of:
- 50% relating to the amount contributed by each pool member; and
 - 50% on population.

It is estimated that there would be a gain to Bradford of £1.8m from the 100% business rate pilot. Whilst the prospectus was for one year only it would make sense to extend the pilot into 2019/20 but this has not been confirmed.

- 3.3 Public Health Grant - On 21st December 2017 the Public Health Grant allocations for 2018/19 were announced together with indicative allocations for 2019/20. The allocations for Bradford were in line with expectations £41.8m 2018/19 and £40.7m for 2019/20 a 2.6% cut to the grant in each year.
- 3.4 School Funding - the Dedicated Schools Grant figures were released on 19th December 2017 and they are in line with expectations.
- 3.5 On Thursday 18th January 2018 a communication was received by all local authorities that information supplied by the VOA had led to incorrect Top Up and Tariff grants being included in the provisional local government settlement figures. We understand that there will be a reduction in the top up grant to Bradford. We

would expect that as the error arose elsewhere that local government should not be penalised financially. Work is on-going to quantify the value of the VOA data error.

4. LOCAL ISSUES

4.1 Council Tax

At the meeting of the Executive held on 9 January 2018 the Council Tax base for 2018/19 was approved as a total number of Band D equivalent properties of 140,348 which is the figure used in the Budget Consultation report. If the additional 1% increase in the Council Tax referendum were to be applied this would generate an extra £1.8m.

At the same Executive meeting the Council Tax Reduction Scheme was approved and that has also been factored into the Budget Consultation report.

4.2 Business Rates Base

As explained in paragraph 3.2.11 above the LCR 100% Business Rate Pilot was approved by DCLG. The implications of accepting this offer would be that the government will need to recalibrate the business rate distribution mechanism to ensure that the members of the LCR pool are no better or worse off compared to their business rate baselines. To undertake this recalibration the government will firstly extinguish the Revenue Support Grant (RSG) of the LCR pool members and then adjust their respective Tariff and Top Adjustments.

Whilst the structure of the budget for Net Resources will change as a result of the 100% Business Rate Pilot the combined baseline position currently presented in the Budget Consultation report for RSG, Localised Business Rates and Top Up Grant will remain the same. On top of this there is expected to be a gain to Bradford of £1.8m for 2018/19 through retained growth as part of the 100% Business Rate Pilot.

4.3 Business Rates Revaluation Relief

On 20 June 2017 the Executive approved the implementation of the West Yorkshire Business Rates Revaluation Relief Scheme to support businesses that face the steepest increases in their business rates bills as a result of the 2017 Business Rate revaluation.

The scheme which is fully funded by the Government will run for four years but funding will reduce each year.

Funding in year two is £558k and officers are currently modelling the level of support such an amount would allow. As such it is recommended that delegated authority is given to the Strategic Director of Corporate Services, in consultation with the Portfolio Holder, to finalise the scheme for 2018/19 and subsequent years whilst the Government funding is available.

4.4 New Pressures

4.5.1 Other than the savings that were identified as being at risk in Appendix G (ii) of Document AJ - Proposed Financial Plan Updated 2018/19 to 2020/21 Executive Report 5 December 2017 it is assumed that all other savings other than those associated with the West Yorkshire Combined Levy will be delivered in full.

4.4.2 In the Executive Budget Report AJ the saving 4R2 West Yorkshire Combined Authority (WYCA) Transport Levy requires a saving for Bradford of £1.234m for 2018/19 and a further reduction of £750k in 2019/20. The current budget papers for WYCA suggest a reduction in the levy of £1m for 2018/19 and a further £1m reduction in 2019/20. WYCA will meet on 1st February 2018 to agree its budget position. If the proposed reductions are approved then it is estimated that Bradford's share will only be £231k in each year. This would result in a shortfall of £1m in 2018/19 and a further £500k in 2019/20. For 2019/20 we are still planning on a £500k reduction in Bradford's share of the levy.

4.4.3 As explained in section 3.1 if the Pay Offer is accepted this would add a further £2.9m to the Council pay bill in 2018//19 and a further £2.1m in 2019/20.

4.4.4 The Quarter 3 Financial Monitor illustrates continuing pressure on Adult's and Children's Social care. Additional pressure is also being reported on Waste Disposal. It is imperative that these pressures are brought under control during 2018/19. The Quarter 3 report highlights £23.5m of savings plans that are currently being undelivered. Of these £15.6m have been added back for 2018/19 but £2m of these are expected to be delivered in 2019/20 and £8m in 2020/21.

4.5 Potential Effect of Items Highlighted in this Report

The potential effects of the items highlighted in this report are set out in the Table 1 below:

Table 1: Potential Impact of Items Highlighted in this Report

	2018/19	2019/20	Cumulative
	£m	£m	£m
Pay offer (3.1)	2.9	2.1	5.0
WYCA levy (4.4.2)	1.0	0.3	1.3
Potential cost pressures	3.9	2.4	6.3
Additional council tax income (4.1)	(1.8)	0.0	(1.8)
100% Business Rate Pilot (3.2.11)	(1.8)	1.8	0.0
Potential additional income	(3.6)	1.8	(1.8)
Potential shortfall	0.3	4.2	4.5

As can be seen there is the possibility of balancing 2018/19 but a £4.5m potential problem remains for 2019/20.

5. CAPITAL EXPENDITURE

There are no proposed changes to the current size of the capital investment plan that is fully funded in the budget papers. This will be kept under review.

6. OTHER MATTERS TO TAKE INTO CONSIDERATION

6.1 At 31 December 2017 the unallocated reserves stood at £14.5m. The current budget proposals do not assume any call on the unallocated reserves for 2018/19 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. To achieve this it would require that Council raise Council Tax by the extra 1% that was announced in the provisional local government settlement.

6.2 In a separate report to this meeting the Executive will consider feedback received to date from the on-going consultation processes on the 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.

6.3 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

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

8. LEGAL APPRAISAL

It is necessary to ensure that the Executive have comprehensive information when considering the recommendations to make to Council on a budget for 2018/19 and budget proposals for 2019/20 at their meeting on 20 February 2018. 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 represented to this meeting of the Executive.

9.7 WARD IMPLICATIONS

There are no direct Ward or area implications resulting from this report.

10. NOT FOR PUBLICATION DOCUMENTS

None

11. RECOMMENDATIONS

11.1 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 2018/19 and budget proposals for 2019/20 at their meeting on 20 February 2018.

11.2 That the Strategic Director of Corporate Services be given delegated authority, in consultation with the Portfolio holder, to finalise and implement the Business Rates Revaluation Relief scheme for 2018/19 and subsequent years, whilst Government funding is available.

12. BACKGROUND DOCUMENTS

Document AJ - Proposed Financial Plan Updated 2018/19 to 2020/21 Executive Report 5 December 2017

Document AN – A Council Tax Reduction scheme for 2018/19 Executive Report 9 January 2018

Document AO – Calculation of Bradford’s Council Tax Base and Business Rates Base for 2018/19 Executive Report 9 January 2018

Document AU – Financial Position Statement for Third Quarter Executive Report 6 February 2018