Report of the Assistant Director Finance and Procurement to the meeting of Executive to be held on 10 July 2018

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Subject:

Medium Term Financial Strategy 2019/20 to 2021/22 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. In addition the impact on the economy from leaving the EU may also affect local government funding and demand for services.

The forecast identifies for planning purposes that savings need to be identified of £15.3m in 2019/20 in addition to the £6.1m agreed in February 2018. In the following year the gap increases to £20.2m in 2020/21 and then up to £32.3m by 2024/25. 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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Portfolio: Leader and Corporate

Overview & Scrutiny Area:

Corporate

1. SUMMARY

1.1 Whilst there is a growing national awareness of the demand on council services with reduced funding there are several fundamental reforms being proposed but with no detail at this stage, which makes financial planning difficult. 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£15.3m in order to set a balanced Budget in February 2019. The gap rises to £20.2m in 2020/21 and continues to widen to £32.3m by 2024/25 (Appendix 1 Table 2). 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.

1.4 Appendix 1 section 3.1 contains details of the key uncertainties associated with the forecast. There are several national reforms that will impact on the forecast namely:

- Fair funding review
- Business Rates Baseline reset
- Move to 75% Business Rates retention
- Spending Review 2019
- Social Care Green Paper
- Brexit

1.5 Clearly Brexit is still an unquantifiable uncertainty for the national economy. Any deterioration of the national economy could lead to further austerity measures imposed on local government. For many of the reforms listed above the implications on individual local authorities will not be known until late in 2019. This will not give much time for local authorities to budget for any significant changes in funding. As a result it is important that Council reserves are maintained now in order to smooth any adverse transition.

1.6 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 benefitted in 2018/19 from the Leeds City Region 100% Business Rate

Pilot. The letter from MHCLG indicated that the pilot was for one year only. Recent discussions with MHCLG have not given any indication whether the pilot would be extended into 2019/20 as it is a “policy” decision. For the purposes of this forecast it is assumed that the Pilot will not continue. The comparisons of the Council’s net resources are therefore skewed by the 100% pilot in 2018/19 and subsequently the estimate of 75% business rates retention..

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 will need to be refreshed as further information becomes available.

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 approved to date
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;
- 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.

6.2 The Council is legally obliged to set a balanced budget.

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

7.8 IMPLICATIONS FOR CORPORATE PARENTING

Non specific

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESEMENT

Non specific

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

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

10. RECOMMENDATIONS

10.1 That Executive consider the Medium Term Financial Strategy as an assessment of the Council's financial outlook to 2021/22 and beyond, and a framework for it to remain financially viable and deliver sustainable public services in line with its priorities and the principles set out in Appendix 1.

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

11. APPENDICES

11.1 Appendix 1 Medium Term Financial Strategy 2019/20 to 2021/22, including the annexes to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Council Budget Report 22nd February 2018 - Document P

12.2 Executive Report 10th July 2018 - Review of Minimum Revenue Provision (MRP) Update Policy - Document G

12.3 Executive Report 10th July 2018 - First Qurter Financial Position Statement for 2018/19 - Document E

APPENDIX 1

City of Bradford Metropolitan District Council

Medium Term Financial Strategy

2019/20 – 2024/25

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 attributed to savings plans at risk.

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. 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 an 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. Business Rate Reform, Spending Review, Fair Funding Review, Social Care Green Paper and the potential impact of Brexit are all potentially going to impact on Bradford but the quantum of these factors on the Council's budget is unknown. In Annex B the material factors that are likely to affect the Council's spending forecasts are set out.

2.4 In the five years from the beginning of 2011/12 to 2017/18 the Council has approved a series of reductions to its net budget of £255.9m. Further reductions of £6.1m (including £1.1m of further Public Health grant cuts) are being applied during 2018/19 taking the total reductions to £262m.

2.5 The Government announced in the December 2017 Provisional Local Government Settlement that there would be a move to 75% business rates retention but that Public Health Grant and Revenue Support Grant (RSG) would be funded by the retained business rates. The figures for 2020/21 have therefore been presented on an anticipated 75% rates retention system but this makes net funding comparisons between financial years problematic. Details of the assumptions on 75% business rates retention are included in section 6.1.

2.6 On 23 February 2018 the Council agreed further savings for 2019/20 of £23.3m. Assuming that the Council raises Council Tax in 2018/19 by 1.99% the deficit still to be closed in 2019/20 is forecast to be £15.3m.

Table 1 Cumulative Medium Term Forecast

	2019-20 Forecast £'000	2020-21 Forecast £'000	2021-22 Forecast £'000
NET EXPENDITURE			
2018/19 Base Budget	358,110	358,110	358,110
Reversal of non recurring investment	(649)	(1,216)	(1,216)
Full year effect of recurring pressures	2,967	4,507	4,567
Sub total	360,428	361,401	361,461
FUNDING CHANGES			
Independent Living Fund	59	116	171
Local Council Tax Support and Housing Benefit Admin	250	500	750
New Homes Bonus Grant	1,266	2,734	3,283
Dedicated Schools Grant	2,607	2,607	2,607
Improved Better Care Fund	(3,968)	(720)	(720)
Adult Social Care Support Grant	1,436	1,436	1,436
S31 grants	9,045	8,795	8,795
Public Health Grant to be funded by 75% business rates	0	40,722	40,722
Public Health Grant cut	1,087	1,087	1,087
Sub total	11,782	57,277	58,131
INFLATION			
Pay Award (average 2.9% in 2019-20 then 2.0% thereafter)	6,879	11,676	16,763
Contract Price Indexation (2.0% in 2019-20, 1.5% thereafter)	7,305	13,564	17,338
Employer’s LGPS Contribution	0	2,000	2,000
Income (0.5%)	(821)	(1,346)	(1,872)
Base Net Expenditure Requirement	385,573	444,572	453,821
Demographic Pressures in Adults	3,052	6,167	7,667
Looked After Children demographic growth	625	1,250	1,250
Reduction in Adult spend due to loss of Support Grant	(1,436)	(1,436)	(1,436)
Public Health reduction expenditure in line with reduced grant	(1,087)	(1,087)	(1,087)
Termination costs	0	0	(4,500)
One off pressures	636	25	0
Capital financing and central budget adjustments	2,059	2,609	3,524
Net on-going reduction in MRP charge	(1,000)	(1,000)	(1,000)
Release of overprovision of MRP from previous years	(24,000)	(5,000)	0
Net reduction in carbon commitment costs	(345)	(345)	(345)
Reduction in Apprenticeship levy	(150)	(150)	(150)
Budget decisions approved in Feb 2018	(22,224)	(32,325)	(32,325)
Indicative savings per budget report	0	(22,993)	(22,993)
Savings at risk (Table 4)	10,800	18,800	18,800
Transformational Funding	(2,500)	(2,500)	(2,500)
Net Expenditure Requirement	**350,003**	**406,587**	**418,726**
RESOURCES			
Settlement Funding Assessment	(165,631)	(194,209)	(196,193)
Transfer to reserves – MRP overprovision	24,000	5,000	0
Use of Reserves - Earmarked	(1,170)	(500)	0
Council Tax Income	(191,857)	(196,713)	(201,688)
Total resources	**(334,658)**	**(386,422)**	**(397,881)**
Budget shortfall	**15,345**	**20,165**	**20,845**
Memorandum			
Council tax base	141,098	141,848	142,598
Council tax Band D	£1,359.74	£1,386.79	£1,414.38

Table 2 Cumulative Six Year Outlook

	2019-20 Forecast £'000	2020-21 Forecast £'000	2021-22 Forecast £'000	2022-23 Forecast £'000	2023-24 Forecast £'000	2024-25 Forecast £'000
NET EXPENDITURE REQUIREMENT	**350,003**	**406,587**	**418,726**	**430,165**	**441,176**	**452,289**
RESOURCES						
Settlement Funding Assessment	(165,631)	(194,209)	(196,193)	(198,256)	(200,399)	(202,617)
Transfer to reserves – MRP overprovision	24,000	5,000	0	0	0	0
Use of Reserves - Earmarked	(1,170)	(500)	0	0	0	0
Council Tax Income	(191,857)	(196,713)	(201,688)	(206,782)	(212,000)	(217,343)
Total resources	**(334,658)**	**(386,422)**	**(397,881)**	**(405,038)**	**(412,399)**	**(419,960)**
Budget shortfall	**15,345**	**20,165**	**20,845**	**25,127**	**28,777**	**32,329**
Memorandum						
Council tax base	141,098	141,848	142,598	143,348	144,098	144,848
Council tax Band D	£1,359.74	£1,386.79	£1,414.38	£1,442.52	£1,471.22	£1,500.49

RISKS ASSOCIATED WITH THE FORECAST

3.1 A series of potential changes in the Spending Review 2019, Local Government Settlement, Business Rate reform and the results of the fair funding review inevitably means there are uncertainties and sources of risk attached to the forecast.

Risks associated with the forecast:

- The impact of national economic performance public sector finance as a result of the Brexit negotiations.
- The buoyancy of the local economy
- Fair Funding Review
- Business Rates Baseline Reset
- Move to 75% Business Rate retention
- 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
- Spending Review 2019

KEY MOVEMENTS FROM 2018/19 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	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**
Budget Shortfall per Budget February 2018	**0**	**0**	**2.5**
Savings not identified in February 2018 budget	4.0	20.2	20.2
New Homes Bonus change to assumption (Annex C 7.1b)	(0.3)	(0.6)	(1.0)
Change to specific grant assumptions	(1.1)	(1.1)	(1.1)
Amendments to indexation assumptions (Annex B 5.1)	0.4	(0.5)	0.7
Estimate of triennial pension revaluation	0	2.0	(1.5)
Benefit from change in MRP policy (Annex B 5.12)	(1.0)	(1.0)	(1.0)
Net reduction in carbon commitment costs (Annex B 5.6)	(0.4)	(0.4)	(0.4)
Reduction in Apprenticeship Levy	(0.2)	(0.2)	(0.2)
Recurring pressures	1.4	1.4	1.4
Revised assumptions re 75% business rates retention	0	(19.2)	(18.5)
Revision to business rates estimates	1.7	0.8	0.9
Revised budgetary gap per MTFS (cumulative basis) – Table 4	**4.5**	**1.4**	**2.0**

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.

Table 4 – FORECAST BUDGETARY GAP TO CLOSE

	2019/20	**2020/21**	**2021/22**
	£m	**£m**	**£m**
Budget Shortfall per Tables 3 above	**4.5**	**1.4**	**2.0**
Adults social care demand management	9.5	17.5	17.5
Waste collection and disposal	1.3	1.3	1.3
Revised budgetary gap – Table 1	**15.3**	**20.2**	**20.8**

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 over £1.1bn of spend, it cannot spend directly £319m which is controlled by schools. This leaves, in 2018/19, a gross expenditure budget of £838m (£358m net expenditure) to fund non school activity.

2018/19	Gross Exp £m	Net Exp £m
Council Services	837.9	358.1
Schools	318.8	0
	1,156.7	358.1

If the £157m spent on benefit payments, the £35m required to meet the cost of the long term PFI contracts, the £23m levy paid to the West Yorkshire Combined Authority (WYCA), the £42m that must be spent on Public Health activity and the £38m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £543m, from which to drive out further savings.

Of the net budget of £358m, 28.7% 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.

2018/19 Budget	**Gross**	**Net**	**% of net budget**
Health and Well Being	215.7	102.9	28.7%
Children's Services	482.9	93.2	26.0%
Place	120.6	63.7	17.8%
Capital Financing and WYCA	61.0	61.0	17.0%
Chief Executive	3.9	3.8	1.1%
Corporate	251.4	42.4	11.8%
Non Service	21.2	(8.9)	-2.4%
	1156.7	**358.1**	**100.0%**

A different way of presenting the budget is by the Council Outcomes that will be used for the Outcome Based Budgeting exercise.

Outcome Budget 2018/19	Gross	Net	% of net budget
Better health better lives	435.1	166.6	46.5%
A well run council	77.1	53.8	15.0%
Better skills more jobs and a growing economy	93.3	44.1	12.3%
Safe clean active communities	62.5	39.3	11.0%
Fixed	64.1	31.1	8.7%
Good schools and a great start for all our children	419.0	19.7	5.5%
Decent homes that people can afford to live in	5.6	3.5	1.0%
	1156.7	**358.1**	**100.0%**

The analysis illustrates that over 46% of the budget relates to personal type services which will undoubtedly lead to some difficult choices through the budget process if the Council wishes to retain the current proportion of spend across its outcomes.

b) Resource base

The Table below shows that in 2018/19 over half (52%) of the Council's net expenditure is funded from Council tax. For 2018/19 the Business Rates income figure is skewed by the Leeds City Region 100% Business Rates Pilot. The Business Rates Pilot is currently for one year only and it is assumed that the Council would revert back to 49% retained business rates in 2019/20.

As mentioned in 2.5 above an assumption has been made on the proposed 75% business rates retention. These are set out in section 6.1. There are also other reforms planned, namely:

- Business rates baseline reset;
- Fair Funding Review; and
- Spending Review 2019.

A key issue will be what the total size of local government will be across the board. The earliest Bradford Council is likely to understand the impacts of these changes will be in late 2019.

In addition we are expecting the publication of the Green Paper on Adult Social Care. There are clear links to reforms of local government funding and the potential reforms to funding of social care. However, it is unclear how these two initiatives will impact on each other and ultimately on the ability of Councils to meet their obligations.

In addition if there were to be significant redistributions of local authority funding, it is expected there would be transitional arrangements at least for 2021/22 to lessen the impact.

The table below provides a further breakdown of the source so funding in 2018/19.

Sources of Funding in 2018/19	**Gross £m**	**%**	**Net £m**	**%**
Schools Grants	318.8	28%	-	0%
Other Government Grants	272.2	24%	-	0%
Fees, Charges, Contributions	207.5	18%	-	0%
Council Tax and previous year surplus	186.7	16%	186.7	53%
Government "Top Up" Grant	46.5	4%	46.5	13%
Revenue Support Grant	-	0%	-	0%
Business Rates and previous year deficit	126.7	11%	126.7	35%
Use of Reserves	(1.8)	0%	(1.8)	-1%
	1156.7	**100%**	**358.1**	**100%**

Please note totals may not add up due to rounding differences

As the Council is required to absorb further reductions in Government funding, the clear message 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

Eight consecutive years of reductions in Government funding, and inflationary and demographic pressures have required the Council to approve savings/cuts over the period of £262m.

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Savings	48.7	28.5	26.1	31.8	37.7	45.6	37.5	6.1	262.0

By 2024/25 it is estimated that to balance the books over £86m more in savings and additional income (24% of the current net budget) will have to be found – on top of the £262m already made and increases in Council tax.

During the period of austerity the Council has absorbed a large share of Government funding reductions in relation to overall public sector funding reductions. Throughout this period the Council has protected basic services at a time of growing cost pressures. The Council will continue to focus on reducing costs and improving efficiency and productivity but finding new savings and raising income means that frontline services are now being impacted.

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 2.9% for 2019/20 and then 2.0% for each year up to 2024/25 has been included in the calculations. Services are expected to absorb incremental increases.

This forecast assumes £4.5m of redundancy costs built into the base budget for 2019/20 and 2020/21 but then zero after that date on the basis that Local Government should be on a stable footing. However, if further reductions in local government funding continue after this date then this assumption will need to be revisited.

There may be additional costs in respect of implementing the new spinal column points due to the new grades overlapping existing supervisory grades. At this stage nothing has been quantified or provided for this.

It has therefore been assumed for 2020/21 onwards, that the introduction of the new spinal column points in 2019/20, means that all spinal column points will receive the same percentage increase.

b) Non Pay

The Bank of England published their forecast of CPI in May 2018, which indicated that inflation would be close to 2% by the end of 2018/19. Given this, an inflation rate of 2.0% has been assumed for contract inflation for 2019/20 and then 1.5% during the remaining period of this MTFS. 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 2018 an additional amount of non pay inflation was provided for Adult Social Care of £2.5m p.a. for 2019/20 and 2020/21.

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 2020/21 to deal with changes arising from actuarial assumptions. Clearly many factors on the performance of the pension scheme can vary over the next three years. A provision for increased contributions of £2.0m has been included from 2020/21.

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) has been reduced to £850k p.a. It is assumed that any training cost 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 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 two years and then £1.5m p.a. thereafter. This forecast assumes that the current amount of funding from Health Partners will continue to be received.

Additional funding has been factored in for Adult Social Care safeguarding of £1.29m p.a.

The 2017/18 budget included a provision for demographic growth on looked after children which would increase by £625k p.a. over a four year period. This forecast assumes that the extra £2.5m p.a. that will be in the base budget continues at that level from 2021/22 onwards. No further provision has been made on the assumption that the numbers of looked after children has stabilised or if the problem continues then the government will have to provide extra funding to deal with a national problem.

A 12 year contract to secure an outlet for household waste disposal and recycling was signed in September 2017. 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 is not included in the Non Pay inflation calculation.

An element of cost pressures on waste collection and disposal associated with demographic growth has been factored in as part of the risk of non delivery of savings in Table 4.

5.5 West Yorkshire Transport Levy

The budget proposals agreed in February 2018 assume a reduction in the levy of £500k in 2019/20 followed by a further £500k reduction in 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 from Bradford by 2024/25 (an average increase of £140kp.a.). No provision has been made for increased contributions in respect of the Transport Fund as we are awaiting a reprofiled capital expenditure profile from WYCA colleagues.

5.6 Service and Non Service Saving Proposals

The Forecast in Table 1 assumes that the Service and Non Service savings approved by Council, covering 2018/19 and part of the gap for 2019/20 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 2019/20 to £15.3m rising to £20.2m in 2020/21 and £20.8m in 2021/22.

Travel assistance savings are profiled in to this forecast in line with those agreed in the budget approved by Full Council. For reference these savings on a cumulative basis are 2018/19 £0.4m, 2019/20 £1.6m, 2020/21 £2.0m. It is therefore assumed that these savings will met in full in accordance with that profile.

The Carbon Reduction Commitment (CRC) will be abolished after 2018/19 so a net saving of £345k has been factored into this forecast which reflects the saving on the CRC with uplift on the Climate Change Levy.

5.7 Health Sector Reforms

Sustainability and Transformation Plans (STPs) have been 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.

5.8 Better Care Fund (BCF)

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:

	2019/20	**2020/21**	**2021/22**
	£m	**£m**	**£m**
Improved Better Care Fund	20.4	17.2	17.2

Source: Final core spending power supporting information published by DCLG Feb 2018

As Adult Social Care represents nearly one third of the Council’s net budget it is imperative that cuts allocated to this area are delivered in full.

5.9 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 due later in 2018.

There is a concern that the Social Care Green Paper may not link with the other local government funding reforms resulting in perverse pressures in local government.

5.10 Independent Living Fund

For 2018/19 the Council will receive a grant of £1.9m 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.

5.11 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.

5.12 Minimum Revenue Provision

As set out in the report to Executive Document G 10th July 2018 there are proposed changes to the Minimum Revenue Provision policy. The effects of these changes are included in this forecast.

One effect of this relates to the estimation of previous MRP charges and by releasing this it will provide a benefit of c£52m over a period of 3 years, commencing in financial year 2017/18, but it is assumed that this will be transferred to a MRP Adjustment reserve in order to build resilience for any changes resulting from the fair funding review or slippage in agreed savings proposals.

There will also be an on-going budgetary saving of £1m p.a. that has been factored as a saving that will flow through to the bottom line.

More detailed explanations of these adjustments can be found in the report to Executive 10th July 2018 - Review of Minimum Revenue Provision (MRP) Update Policy - Document G.

ANNEX C: RESOURCE FORECAST ASSUMPTIONS

6.1 National influences

The Local Government Settlement and the Spring Statement 2018 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 uncertainty on what this will mean for Bradford. 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
- Change to the percentage of rates retention

A technical consultation on the relative needs of local authorities closed in March 2018 and it is expected that a further technical consultation on relative resources of local authorities will be issued later in 2018.

The government announced it will seek to implement a 75% business rates retention from 2020/21and that the ring-fenced Public Health Grant will disappear and instead be funded from retained business rates together with the remnants of RSG. For this forecast it has been assumed that a reduced Public Health Grant of £40m will be rolled into 75% business rates retention together with £20m of RSG.

The government has also indicated that the next business rate revaluation will be 2021 followed by triennial revaluations. For this forecast the impact on Bradford is assumed to be neutral.

Regarding the reset of the business rate baseline it is likely to be April 2020 and a full reset based on 2018/19 business rate income although this is still to be confirmed. Again it is assumed for this forecast any effect is cost neutral for Bradford.

b– Revenue Support Grant

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.

For 2018/19 the 100% business rate pilot has meant the Council receives no RSG but if the pilot does not continue beyond 2018/19 the RSG will be £34m for 2019/20. As explained in 6.1a above it has been assumed that for 2020/21 there will be no separate RSG but £20m will be rolled into the 75% business rates retention. The £20m is based on an estimated further reduction in RSG funding together with the removal of damping in the 2013/14 figures.

This assumption will be kept under review.

c- Schools Funding

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

The Business Rates forecast is subject to a number of proposed changes in Government policy, which are still subject to discussion and further change. Further achieving budgeted Business Rates continues to be a challenge for the Council, suggesting current assumptions around business rate income are optimistic.

In terms of Government policy, it is assumed that 75% rates retention will be introduced in 2020/21, with compensatory adjustments made to other Government funding. The impact of other reviews which could result in some technical changes is unknown at this stage.

Very late in the 2017/18 financial year and after the completion of the budget process, the Government revised its calculation methodology for the calculation of Section 31 grants, reducing funding. While this shortfall will be met in 2018/19 from a planned release of earmarked reserves, there is an on-going £0.4m pressure which has been factored into this forecast.

Further the 2017/18 outturn on Business Rates was lower than originally budgeted, suggesting that the projections of the underlying Business Rates Base are too high. While the impact of the weaker 2017/18 Outturn has already been factored into the 2018/19 budgets, there is an on-going £0.8m pressure. A reason for this on-going pressure is that the cost of mandatory reliefs was higher than expected, although this is directly offset with higher section 31 grants. Therefore on an on-going basis, £0.7m additional compensatory Section 31 reliefs have been projected.

A significant unknown factor in estimating the Council‘s funding from Business Rates are appeals. A new appeal system was introduced in 2017/18, with the Council setting aside amounts to fund refunds. However, the impact of the new appeal system and the likely cost of appeals is still very uncertain at this stage.

b Council Tax Levels

For 2018/19 the limit on raising council tax was increased to 3% but it is assumed that this referendum limit will fall back to 2% during the period covered by this forecast as MHCLG suggested the 3% limit was as a result of higher than expected inflation. With a 2018/19 Band D Council tax of £1,333.21 (including the social care precept) the Council continues to set one of the lowest Band D Council Taxes of all Metropolitan Districts. (9th lowest metropolitan district council in 2018/19). If the referendum limit was to be raised and the Council chose to increase Council Tax by an extra 1% this would generate an estimated £1.8m in additional income.

In total the Council budgeted to raise £187m in Council Tax in 2018/19.

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. Given the high levels of savings to be made in Adult Social Care it would be problematic to implement any future social care precept rises without reducing the level of savings required in Adult Social Care which would not provide any easing of the budgetary pressures.

Any future increase in Council Tax will be consulted on as part of the Budget process. In February 2018 Full Council indicated a 1.99% Council Tax rise for 2019/20. 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 2024/25 would increase by a further £24m.

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 2019/20 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.

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 157,191 or 80% 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 2018/19

	A*	A	B	C	D	E	F	G	H	Total
Equivalent number of properties	141	79,521	41,361	36,168	16,581	11,659	5,519	3,437	244	194,631
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	78	53,104	32,170	32,150	16,581	14,250	7,972	5,729	488	162,432

Source: Report to Executive 9th January 2018 Document AO Appendix A1 – please note the figures above are before reductions due to Council Tax Reduction Scheme, bad debt provision and forecast growth

Government published statistics illustrate the disparity between how much local authorities can raise in their respective areas depending on the profile of the properties in their districts. The table below compares Bradford's Band D rate with that billed by the District Council Elmbridge in Surrey and also the amount raised per dwelling. As can be seen although the difference between Band D is only 18.5% the difference between how much is raised per dwelling is 103%.

Table – Illustration of difference between Band D and Council Tax per Dwelling

	Band D 2018/19	Average Council Tax per Dwelling 2018/19
Bradford	£1,573	£1,039
Elmbridge	£1,864	£2,110
Difference	£291	£1071
% difference	18.5%	103%

Source: MHCLG Live Tables on Council Tax

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 £270m of the Council's gross expenditure, the most significant being the ring fenced Housing Benefit Grant and Public Health Grant.

	2018/19 £m
Housing Benefit Grant	157.1
Public Health Grant	41.8
PFI Grant	27.3
Section 31 Business Rates Compensation	19.8
New Homes Bonus	5.7
Local Council Tax Support and Housing Benefit Admin Subsidy	2.7
Adult Social Care Support Grant (one off temporary funding)	1.4
Other	16.4
Total	**272.2**

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 £41.8m in 2018/19. 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. As mentioned in 6.1a there have been strong hints that as a result of the fair funding review the Public Health Grant will form part of the increased business rates income. For this forecast we have assumed a further cut of £0.7m to the grant and that it is transferred into 75% retained business rates.

b) New Homes Bonus Grant

The forecast of the New Homes Bonus (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	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Yr1	1.708						
Yr2	1.916	1.916					
Yr3	1.004	1.004	1.004				
Yr4	1.034	1.034	1.034	1.034			
Yr5		0.442	0.442	0.442	0.442		
Yr6 est.			0.448	0.448	0.448	0.448	
Yr7 est.				0.455	0.455	0.455	0.455
Yr8 est.					0.462	0.462	0.462
Yr9 est.						0.468	0.468
Yr10 est.							0.475
Yr11 est.							
Total payable	5.663	4.397	2.929	2.380	1.807	1.834	1.861

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 £250k 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 £1.1bn, £318.8m is spent by schools and funded from the ring fenced grants, Dedicated Schools Grant (DSG), Pupil Premium and Post 16 funding.

There is continued pressure on school budgets with the continued rise in staffing costs and the limited response to this within the DfE's national funding formula as it currently stands. This is a national issue, which is affecting all local authorities, and which has meant that the majority of schools in Bradford have already progressed managed staffing reductions. The pressure specifically on Special Education Needs (SEND) budgets in Bradford is very significant and continues. This pressure is mirrored in other local authorities and has now become a national publicised issue. For example, in an ADCS survey, published in October 2017, 68 (out of 85 authorities that responded to the survey) reported that their High Needs Block budgets were overspent in 2016/17. National press reported that, at the recent NAHT conference (May 2018), 1 in 5 motions passed related to the insufficiency of high needs funding.

9.1 Reserves

At the start of year, the Council has £14.5m of unallocated reserves (17% 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".

As explained in section 5.13 there is a forecast transfer to reserves of £52m over a period of three years, commencing in financial year 2017/18, from the proposed adoption of the new MRP policy. This new MRP adjustment reserve will be set aside to deal with any implications from the fair funding review and/or to provide breathing space if current savings plans do not deliver and alternative budget proposals have to be implemented.

All other balances are set aside to meet the cost of future commitments and Council 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.