City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director of Finance to the meeting of Executive to be held on 9 July 2019

J

Subject:

MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23 AND BEYOND

Summary statement:

The Medium Term Financial Strategy focuses on how the Council intends to respond to the forecasted public sector funding reductions. 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 proposed changes to the structure of the Council and the services it will be responsible for and what it can provide. Many of these proposed 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 £23.9m in 2020/21 in addition to the £17.4m savings agreed in February 2019. In the following year the gap increases to £26.2m in 2021/22 and then up to £28.9m by 2025/26. 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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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, this 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 pressure on the Council's financial envelope and identifies an immediate need for planning purposes to identify revenue savings of a further c£23.9m in order to set a balanced Budget in February 2020. The gap rises to £26.2m in 2021/22 and continues to widen to £28.9m by 2025/26 (Appendix 1 Table 2). A recent report commissioned by the County Councils Network on the state of local government finance suggested there was a £3bn gap for Metropolitan District Councils by 2024/25.

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, if at all. 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 An inadequate rating for Children's social care in September 2018 by Ofsted together with with increasing caseloads, increasing numbers of children entering care and subsequent pressure on staffing levels has led to increasing pressure on the children's social care budget.

1.6 The Council benefited in 2019/20 from the Leeds City Region/North Yorkshire 75% Business Rate Pilot. For the purposes of this forecast it is assumed that the Pilot will not continue and that the government introduces 75% business rates retention nationally. It should be noted that these two events are not mutually exclusive and there is a possibility another business rate pool could be formed but no benefits from such a pool are anticipated in this forecast.

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 key decisions decisions made 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 decisions 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 Brexit.

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 ASSESMENT

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

That having considered the Medium Term Financial Strategy as an assessment of the Council's financial outlook to 2022/23 and beyond, and a framework for it to remain financially viable and deliver sustainable public services in line with its priorities and the principles, that Executive recommends the updated and revised Medium Term Financial Strategy at Appendix 1 to Document "J" be forwarded to Council for approval.

11. APPENDICES

11.1 Appendix 1 Medium Term Financial Strategy 2020/21 to 2022/23, including the annexes to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Council Budget Report 21st February 2019 - Document U

12.2 Executive Report 9th July 2019 - First Quarter Financial Position Statement for 2019/20 - Document I

APPENDIX 1

City of Bradford Metropolitan District Council

Medium Term Financial Strategy

2020/21 – 2022/23

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

1.1 Purpose and priorities

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

- the forecasted size of the financial challenge it faces in both the medium and longer term
- 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 continue to effectively align scare resources to support Council priorities:

- 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

The Council will continue to work with partners, other organisations, residents and communities to deliver positive outcomes on these priorities.

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 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 changes to assumptions since the budget was approved by Full Council.

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 cost pressures which 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 relating to pressures on children's social care.

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 eight years from the beginning of 2011/12 to 2018/19 the Council has approved a series of reductions of £262.0m to its net budget. Further reductions of £16.1m (including £1.1m of further Public Health grant cuts) are being applied during 2019/20 taking the total reductions to £278m.

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 22 February 2019 the Council agreed further savings for 2020/21 of £17.4m. Assuming that the Council raises Council Tax in 2020/21 by 1.99% the deficit still to be closed in 2020/21 is forecast to be £23.9m.

Table 1 Cumulative Medium Term Forecast

	2020-21 Forecast £'000	2021-22 Forecast £'000	2022-23 Forecast £'000
NET EXPENDITURE			
2019/20 Base Budget	359,911	359,911	359,911
Reversal of non recurring investment	(6,267)	(7,167)	(7,167)
Full year effect of recurring pressures	2,610	3,170	3,750
Sub total	356,254	355,914	356,494
FUNDING CHANGES			
Independent Living Fund	57	112	166
Local Council Tax Support and Housing Benefit Admin	250	500	1,827
New Homes Bonus Grant	919	914	923
Winter pressures money	2,297	2,297	2,297
S31 grants	667	250	(176)
Public Health Grant to be funded by 75% business rates	40,722	40,722	40,722
Sub total	44,912	44,795	45,759
INFLATION			
Pay Award (2.0%)	4,908	9,908	15,202
Contract Price Indexation (2.0%)	7,454	12,459	17,569
Income (0.5%)	(825)	(1,351)	(1,881)
Base Net Expenditure Requirement	412,703	421,725	433,143
Demographic Pressures in Adults	1,600	2,400	5,700
Looked After Children demographic growth	625	1,250	1,875
Additional pressure on Children's social care	15,000	20,000	15,000
One off pressures	300	330	0
Capital financing and central budget adjustments	4,218	7,683	7,683
Release of overprovision of MRP from previous years	6,520	6,520	6,520
Public Health savings reversed	5,000	5,000	5,000
Full roll out of universal credit	0	0	(390)
Budget decisions approved in Feb 2018	(17,396)	(25,775)	(31,264)
Net Expenditure Requirement	**428,570**	**439,133**	**443,267**
RESOURCES			
Settlement Funding Assessment	(202,577)	(205,578)	(208,678)
Use of Reserves - Earmarked	(900)	0	0
Council Tax Income	(201,236)	(207,382)	(213,693)
Total resources	**(404,713)**	**(412,960)**	**(422,371)**
Budget shortfall	**23,857**	**26,173**	**20,896**
Memorandum			
Council tax base	143,700	145,200	146,700
Council tax Band D	£1,400.39	£1,428.25	£1,456.67

Table 2 Cumulative Six Year Outlook

	2020-21 Forecast £'000	2021-22 Forecast £'000	2022-23 Forecast £'000	2023-24 Forecast £'000	2024-25 Forecast £'000	2025-26 Forecast £'000
NET EXPENDITURE REQUIREMENT	**428,570**	**439,133**	**443,267**	**455,729**	**468,385**	**481,173**
RESOURCES						
Settlement Funding Assessment	(202,577)	(205,578)	(208,678)	(211,878)	(215,182)	(218,592)
Use of Reserves - Earmarked	(900)	0	0	0	0	0
Council Tax Income	(201,236)	(207,382)	(213,693)	(220,173)	(226,827)	(233,658)
Total resources	**(404,713)**	**(412,960)**	**(422,371)**	**(432,051)**	**(442,009)**	**(452,250)**
Budget shortfall	**23,857**	**26,173**	**20,896**	**23,678**	**26,376**	**28,923**
Memorandum						
Council tax base	143,700	145,200	146,700	148,200	149,700	151,200
Council tax Band D	£1,400.39	£1,428.25	£1,456.67	£1,485.65	£1,515.21	£1,545.36

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 on 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
- Current work being undertaken in Children’s social care and the impact of any further Ofsted inspections
- 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
- Potential increase in West Yorkshire Transport levy as a result of increased borrowings in respect of the West Yorkshire Transport Fund
- 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 2019/20 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	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**
Budget Shortfall per Budget February 2019	**27.9**	**22.3**	**21.0**
Council Tax assumptions (6.2b)	0.9	(0.1)	(1.2)
Funding assumptions (Table 4)	(23.1)	(25.2)	(26.3)
Children's social care pressures (5.3a)	17.0	22.6	18.3
Removal of redundancy budget (5.1a)	(4.5)	0.0	0.0
Re-profiled travel assistance saving (5.5)	(0.9)	(0.5)	(0.4)
Adult demographic growth revision (5.3b)	(0.1)	(0.8)	1.0
Inflation assumptions (5.1a & 5.1b)	1.3	2.5	3.8
Markets deficit – temporary funding (5.3c)	0.3	0.3	0.0
Public Health savings (5.3d)	5.0	5.0	5.0
Full rollout of Universal Credit	0.0	0.0	(0.4)
Other	0.1	0.1	0.1
Revised budgetary gap per MTFS (cumulative basis)	**23.9**	**26.2**	**20.9**

Table 4 – Funding assumption changes

	2020/21	2021/22	2022/23
	£m	£m	£m
Assumed changes to Settlement Funding Assessment (6.1)	(6.9)	(8.3)	(9.9)
No further reductions in Public Health Grant (7.1a)	(0.2)	(0.2)	(0.2)
Damping frozen in 2013/14 not removed (6.1b)	(7.6)	(7.6)	(7.6)
New Homes Bonus amended to reflect change in assumed Council Tax base growth (7.1b)	(1.3)	(2.0)	(2.6)
Social care grant announced in October 2018 budget assumed to be permanent (7.1g)	(3.9)	(3.9)	(3.9)
Spring 2017 iBCF assumed to continue (7.1f)	(3.2)	(3.2)	(3.2)
Housing Benefit Subsidy Admin Grant to be phased out (7.1d)	0.0	0.0	1.1
Total per Table 3 above	**(23.1)**	**(25.2)**	**(26.3)**

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 £297m which is controlled by schools. This leaves, in 2019/20, a gross expenditure budget of £820m (£360m net expenditure) to fund non school activity.

Table 5 – Budget split between Schools and Council

2019/20	Gross Exp £m	Net Exp £m
Council Services	814.8	359.9
Schools	302.5	0
	1,117.3	359.9

If the £127m 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 £41m that must be spent on Public Health activity and the £29m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £560m, from which to drive out further savings.

Of the net budget of £360m, 31.0% 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.

Table 6 – Budget by Department

2019/20 Budget	Gross	Net	% of net budget
Health and Well Being	229.5	111.4	31.0%
Children's Services	468.7	94.7	26.3%
Place	118.1	63.5	17.6%
Capital Financing and WYCA	51.9	51.9	14.4%
Chief Executive	4.2	4.0	1.1%
Corporate	223.0	43.3	12.0%
Non Service	21.9	(8.9)	-2.4%
	1,117.3	**359.9**	**100.0%**

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

Table 7 - Outcome Budget 2019/20	**Gross**	**Net**	**% of net budget**
Better health better lives	440.6	192.1	53.4%
A well run council	79.9	53.2	14.8%
Better skills more jobs and a growing economy	94.2	44.0	12.2%
Safe clean active communities	61.1	41.1	11.4%
Fixed	55.7	18.6	5.2%
Good schools and a great start for all our children	380.9	7.3	2.0%
Decent homes that people can afford to live in	4.9	3.6	1.0%
	1,117.3	**359.9**	**100.0%**

The analysis illustrates that over 53% 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

Table 8 below shows that in 2019/20 over half (54%) of the Council's net expenditure is funded from Council tax. For 2019/20 the Business Rates income figure is skewed by the Leeds City Region/North Yorkshire 75% Business Rates Pilot. The Business Rates Pilot is currently for one year only and it is assumed that the Council would revert to the government's proposed 75% retained business rates in 2020/21.

In addition to the proposed 75% business rates retention (further details set out in 6.1a). 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 still expecting the publication of the Green Paper on Adult Social Care, despite six postponements to its publication. 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 to lessen the impact. This paper assumes the current damping requirements that were frozen in the 2013/14 settlement will apply for 2020/21 and beyond.

Table 8 - Sources of Funding in 2019/20	Gross £m	%	Net £m	%
Schools Grants	302.5	27%	-	0%
Other Government Grants	243.9	22%	-	0%
Fees, Charges, Contributions	211.0	19%	-	0%
Council Tax	195.3	17%	195.3	54%
Government "Top Up" Grant	67.0	6%	67.0	19%
Revenue Support Grant	-	0%	-	0%
Business Rates and previous year deficit	96.2	9%	96.2	27%
Use of Reserves	1.4	0%	1.4	0%
	1,117.3	**100%**	**359.9**	**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. However, an important point to note is that a 1% increase in council tax raises just under £2m. A 1% pay award and 1% increase in contract prices costs the council £4.7m. Council Tax alone is not enough to keep the Council at a standstill position and without other sources of income further cuts are inevitable.

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.

Table 9 – savings approved to date since 2011/12

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Savings	48.7	28.5	26.1	31.8	37.7	45.6	37.5	6.1	16.1	278.1

By 2025/26 it is estimated that to balance the books over £100m more in savings and additional income (27% of the current net budget) will have to be found – on top of the £278m 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 2.0% p.a. has been included in the calculations. Services are expected to absorb incremental increases. Clearly if the pay awards ultimately agreed are based on a tiered structure with higher percentages for lower paid staff then more detailed modelling will be required and the pay award provided in this document will need to be revised.

The forecast previously assumed that there would be £4.5m of redundancy costs required to top up the long term redundancy provision. As explained in the Outturn report (Doc ref I) a transfer of £3m has been made from balance sheet provision to reserves for future severance costs. As a result of this the one off budget provision for 2020/21 has been removed from this forecast. 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 compression of the spinal column points and therefore the compression of grade differentials at the lower end of the grading structure. 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 target rate of CPI is 2.0%. The Bank of England inflation report published in May 2019 indicated that CPI would be below target in the first half of the forecast and then rise to above target. The published rate of CPI rose from 1.9% in March 2019 to 2.1% in April 2019.

Given this, an average inflation rate of 2.0% has been assumed for contract inflation for 2019/20 and 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 2019 an additional amount of non pay inflation was provided for Adult Social Care of £2.5m p.a. for 2019/20.

In recognition of difficult trading conditions, all Services inflation increases to their income budgets are factored in at 1.0% 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.

5.3 Demand-Led Service Pressures

a) Children's Social Care

Ofsted undertook an inspection of Children's Social Care in September 2018 and published an inadequate rating. At Full Council additional permanent resources of £7.0m were invested into Children's social care together with a further £6.5m of temporary investment.
There has been a significant increase in the number of looked after children since March 2019 and on the current trajectory it is estimated that the number will have risen to 1,400 by the end of March 2020. As a result of this projected increase a further £15m for the costs of social care has been included in this forecast for 2020/21. If the number of Looked After Children does not stabilise then there could be a further £5m pressure on Children's Social care budgets and has been reflected in the 2021/22 figures and then falls back to an on-going £15m for 2022/23.
In addition to the increase in numbers of children in care the additional case loads is suggesting that the temporary staffing in place using some of the £6.5m temporary investment will become permanent leading to a further £2m budget pressure that has been recognised in this forecast.

b) Adults demographic growth

The demographic growth for adult social care has been revised using statistics from the Projecting Older People Population System (POPPI) and Projecting Adult Needs and Service Information System (PANSI). This has resulted in a slight reduction of the demographic growth provision for 2020/21 and 2021/22.

c) Markets service

As the market scheme progresses there will be continuing pressure on the markets bottom line budget whilst there is a transition from the old markets to new market developments. As a result temporary funding has been included in this forecast to cover the estimated shortfall in the markets income that cannot be covered by the markets reserve. The amounts forecast as being required are £300k for 2020/21 and £330k for 2021/22.

d) Public Health

As part of the four year outcome based budgeting exercise further reductions in areas of public health spend were planned where the grant would be substituted for council funded services that aligned to public health outcomes. A recent review has indicated that if these proposals went ahead in their entirety then the Council would be an outlier in spend on the public health miscellaneous category. As a result £5.0m of public savings have been reversed in this forecast pending a further review.

5.4 West Yorkshire Transport Levy

The budget proposals agreed in February 2019 assume a reduction in the levy of £500k in 2019/20 followed by a further £500k reduction in 2020/21. These have been factored into the forecast following discussions with WYCA. However, further 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 revised capital expenditure profile from WYCA colleagues which will determine the phasing and level of borrowing WYCA will require.

5.5 Service and Non Service Saving Proposals

The Forecast in Table 1 assumes that the Service and Non Service savings approved by Council, covering 2019/20 and part of the gap for 2020/21 will be achieved in full.

Travel assistance savings have been profiled in this forecast in line with those provided by the independent consultants Edge. It is therefore assumed that these savings will be met in accordance with that profile.

5.6 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.

5.7 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.

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

5.8 Independent Living Fund

For 2019/20 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. It has been assumed that the ILF will continue to be funded through government grant beyond 209/20. If this is not the case then there is potentially a further £1.9m pressure on the Council budget unless the council decides to abolish any local arrangements.

5.9 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 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 and resources of local authorities closed in February 2019. The intention stated by the government is to implement the Fair funding Review by April 2020. The Spending Review 2019 would determine the size of the local government finance pot that would then be allocated to local authorities based on new funding formulae. The timescales for implementing the fair funding review by April 2020 are looking extremely challenging and this forecast now assumes that any such changes would not apply by April 2020. The effect of this is explained in section 6.1b below.

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 £40.7m will be rolled into 75% business rates retention.

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 due to the uncertainty as to whether this will take place.

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 2019/20 the 75% business rate pilot has meant the Council receives no RSG. As explained in 6.1a above it has been assumed that for 2020/21 there will be no separate RSG. Given the current uncertainty surrounding the spending review and the previous announcements of an overall flat cash settlement for total government spending, with an extra £20.5bn for the NHS it seems highly probable that there will be further cuts to local government spending. On this basis a 2.5% reduction in the 2019/20 Settlement Funding Assessment (SFA) has been assumed for 2020/21 with a flat £1m p.a reduction in future years.

We had assumed that the Fair Funding Review would be implemented from April 2020. Given recent events on the national stage and the energy that has been directed at Brexit it is now felt unlikely that the Fair Funding would be implemented by April 2020. As a result the damping of £7.6m that was frozen in the 2013/14 settlement is now assumed to continue indefinitely.

These assumptions 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.

Early indications suggest that schools will have to make difficult budget decisions to avoid setting deficit budgets in 2020/21.

6.2 Local Influences

a) Business Rates

Due to a series of business rate reliefs announced by the government in recent years the Council is currently in receipt of £21.5m of s31 grants to compensate the Council for loss of business rate income. This forecast assumes the current level of s31 grants will continue and increase at a rate of 2% in line with the CPI forecast.

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% as MHCLG suggested the 3% limit was as a result of higher than expected inflation. It is assumed that this referendum limit will fall back to 2% during the period covered by this forecast in line with forecast CPI.

With a 2019/20 Band D Council tax of £1,373.07 (including the social care precept) the Council continues to set one of the lowest Band D Council Taxes of all Metropolitan Districts. (7th lowest metropolitan district council in 2019/20) and the lowest in West Yorkshire. 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 £1.9m in additional income.
In total the Council budgeted to raise £195m in Council Tax 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 2019 Full Council indicated a 2.99% Council Tax rise for 2019/20. This figure has been reviewed in this forecast in comparison to other local authority forecasts the forecast has been reduced to an increase of 1.99% p.a. for 2020/21 and subsequent years in line with the inflation forecasts. If no Council Tax increase were made the budgetary gap by 2025/26 would increase by a further £26m.

Looking at the increase in the council tax base for 2019/20 and the estimate of Band D equivalent new properties being built in the District the Council Tax base has been increased by an estimated 1500 Band D properties in 2020/21, continuing to increase at this level in subsequent years.

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. Table 10 below shows that 157,950 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.

Table 10 - Council Tax Band Analysis 2019/20

	A*	A	B	C	D	E	F	G	H	Total
Equivalent number of properties	142	79,979	41,490	36,339	16,678	11,831	5,586	3,466	247	195,758
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	79	53,320	32,270	32,301	16,678	14,460	8,068	5,776	494	163,446

Source: Report to Executive 8th January 2019 Document AF 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 102%.

Table 11 – Illustration of difference between Band D and Council Tax per Dwelling

	Band D 2019/20	Average Council Tax per Dwelling 2019/20
Bradford	£1,640	£1,090
Elmbridge	£1,936	£2,207
Difference	£296	£1,117
% difference	18.5%	102%

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 c£244m of the Council's gross expenditure, the most significant being the ring fenced Housing Benefit Grant and Public Health Grant.

Table 12 – specific grants

	2019/20 £m
Housing Benefit Grant	126.7
Public Health Grant	40.7
PFI Grant	27.3
Section 31 Business Rates Compensation	21.5
Social Care Support Grant	6.2
New Homes Bonus	4.9
Local Council Tax Support and Housing Benefit Admin Subsidy	2.4
Other	14.2
Total	**243.9**

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 £40.7m in 2019/20.

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 the grant is transferred into 75% retained business rates with no cuts to the 2019/20 level of grant.

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. There has been speculation that NHB would be abolished alongside the introduction of the Fair Funding Review. For this forecast it is assumed that NHB will continue and if it was abolished the Council would not lose funding as the NHB would be rolled back into the Settlement Funding Assessment.

Table 13 – Forecast New Homes Bonus

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m	£m
Yr1	1.916						
Yr2	1.004	1.004					
Yr3	1.034	1.034	1.004				
Yr4	0.932	0.932	0.932	0.932			
Yr5		0.997	0.997	0.997	0.997		
Yr6 est.			1.010	1.010	1.010	1.010	
Yr7 est.				1.025	1.025	1.025	1.025
Yr8 est.					1.040	1.040	1.040
Yr9 est.						1.056	1.056
Yr10 est.							1.069
Yr11 est.							
Total payable	4.887	3.968	3.974	3.965	4.073	4.131	4.190

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 for 2020/21 and 2021/22. It is assumed that for 2022/23 the entire Housing Benefit Admin Subsidy grant is withdrawn. A reduction in the costs of the Revenue & Benefits service of £390kp.a. has been assumed from 2022/23. The Localised Council Tax Support Admin Grant is assumed to continue to reduce by £50kp.a. from 2022/23 onwards.

e) Local Welfare Assistance Funding

The Forecast assumes no external funding for Local Welfare Assistance.

f) Improved Better Care Fund (iBCF)

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.

For this forecast it has been assumed that the additional iBCF announced in the spring 2017 budget of which £3.2m remains in 2019/20 will now continue indefinitely. Previous forecasts had assumed that this element of iBCF would end after 2019/20.

g) Social Care Support Grants

In the Budget Statement at the end of October 2018 the Chancellor announced additional funding for adult and children's social care of £650m. The monies were split between £240m winter pressures grant for adult social care and a social care grant of £410m. For this forecast it is assumed that the winter pressures grant of £2.3m will cease but the social care grant of £3.9m will continue.

8.1 Schools Funding

Of the Council's gross spend of over £1.1bn, £302.5m 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.

9.1 Reserves

At the start of year, the Council had £15.0m of General Fund Reserve together with £10.3m of unallocated reserves (3.1% 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".

Given the on-going uncertainty regarding the overall level of local government funding and the additional pressures on Children's Services it is prudent to hold the current level of reserves to ensure resilience during the next few years.

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.