

COUNCIL STRATEGY AND MEDIUM TERM FINANCIAL STRATEGY
2017/18 to 2019/20

Cabinet Date	20 July 2016
Cabinet Members	Cllr Mark Hawthorne - Leader of Council Cllr Ray Theodoulou - Finance and Change
Key Decision	This is not a key decision
Background Documents	Current Medium Term Financial Strategy and detailed budget for 2016/17 Council Strategy 2016/17 update
Main Consultees	Consultees will include the public, partners, scrutiny, schools and staff
Planned Dates	September 2016 to January 2017
Divisional Councillor	Countywide
Officer	Jo Walker – Strategic Finance Director (01452 328474) Jane Burns – Director : Strategy and Challenge (01452 328472) Paul Blacker – Head of Financial Management (01452 328999)
Purpose of Report	To set out the overall context and outline the process / timetable for refreshing the Council Strategy and Medium Term Financial Strategy for the period 2017/18 to 2019/20.
Recommendation	That Cabinet agree the proposed process for reviewing and developing the Council Strategy and producing the three-year Medium Term Financial Strategy covering the period 2017/18 to 2019/20.
Reasons for Recommendation	To ensure that the Council has a robust process for refreshing the Council Strategy and formulate the MTFs covering the period 2017/18 to 2019/20.
Resource Implications	This report deals with the financial budget from 2017/18 onwards.

MAIN REPORT CONTENTS

Background

- 1 The current Council Strategy and Medium Term Financial Strategy (MTFS), including the detailed budget for 2016/17, were agreed by Council in February 2016. The Council Strategy sets out the Council's vision, values and priorities, and provides the main framework against which we monitor our future progress and performance.
- 2 The current Council Strategy & MTFS were finalised in the context of the financial settlement for 2016/17, issued by the Government in February 2016. This settlement provided information in relation to four years 2016/17 to 2019/20.
- 3 Our current Council Strategy 2015-18 (2016/17 update) covers the three year period from 2015/16 to 2017/18. It is built upon three core values that inform everything the Council does:
 - **Living within our means:** focusing on our priorities in order to manage our budgets and reduce our borrowing;
 - **Doing the right thing:** making sure we spend our money where the need is greatest and where we know it will make the biggest difference so that local people get good outcomes from their services;
 - **Helping communities help themselves:** helping people to live successful lives as independently as possible and giving power to local people in order to get better results and better value.
- 4 The basis of our strategy remains:
 - **Creating active individuals:** helping people make the right life choices, like being fit and healthy and providing support for people to do more for themselves and their families in their own communities
 - **Creating active communities:** working with communities to help them develop their capacity and building on existing support to signpost people to what they need within their own communities
 - **Getting people back to independence:** providing intensive packages of support that focus on a quick recovery following an injury or trauma. We want to enable people to get back to normal as soon as possible to reduce the need for long term care
 - **Being there when we're needed most:** working with our partners to provide specialist, acute support for those who really need our help. We will target this care to people with complex needs and help them to make decisions about the long term care that is right for them
 - **Providing the infrastructure for a thriving economy:** working with partners in the public and private sectors to create the environment and infrastructure to attract inward investment from government and businesses and to stimulate economic development and growth.

- **Getting our Own House in Order:** as the Council's overall budget decreases, so should the amount spend on activities not directly providing services to the public. This has been done over the last four years and will continue into the future, with support services increasingly focusing on supporting the delivery of the Council's strategic programmes, managing areas of highest risk and driving change on the front line.

This strategy is underpinned by a programme of detailed plans which will be reviewed and refreshed alongside the development of the budget and MTFs in order to ensure that the Council is able to deliver the level of transformation required within an affordable budget.

- 5 The Strategy and MTFs approved in February 2016 is the starting point for producing the refreshed MTFs and the detailed budget proposals for 2017/18.

The 2016/17 net budget approved by County Council in February 2016 was £420.46 million. For MTFs planning purposes the 2016/17 budget – which is the starting point for 2017/18 - has been adjusted to £408.86 million. This is a presentational adjustment which removes the notional NHS Funding for Social Care which no longer exists as a funding source but was simply included previously to aid comparisons between years. This funding source has now been absorbed into the Better Care Fund along with the associated spend. All Cabinet monitoring reports for 2016/17 will continue to report against the approved budget of £420.46 million.

- 6 The current year financial position is set out in the financial monitoring report elsewhere on the agenda.

Funding Forecasts – 2017/18 to 2019/20

- 7 The table below shows details of the four year financial settlement for the Council:

	2016-17	2017-18	2018-19	2019-20
Settlement Funding Assessment	119.25	101.92	92.18	83.16
of which:				
Revenue Support Grant	49.91	31.21	19.39	8.04
Baseline Funding Level	20.63	21.04	21.66	22.35
Tariff/Top-Up	48.71	49.67	51.13	52.77

The figures in the table reflect the national announcements and an assumption that the Council accepts the four year funding settlement.

It should be noted that the overall Settlement Funding Assessment is not a cash figure, but rather an indicative amount that central government believe the Council could raise to fund expenditure. This is because only the Revenue Support Grant and Tariff/Top Up is a fixed amount. The Baseline Funding Level is indicative only, and actual cash is based on the return submitted by our district councils at the end of January each year. As a result of past year collection surpluses and deficits and district council estimates of total income collected from Business Rates the figure used in the Council's Budget is the actual cash figure received by the Council, and will therefore differs from that of the settlement funding above.

When these core funding forecasts are combined with other funding sources the “affordable” budget forecast for 2017/18 is shown in the table below;

Funding Source:	2016/17 Revised £m	2017/18 Forecast £m
Revenue Support Grant	49.91	31.21
<u>Business Rates :</u>		
Baseline Funding (incl impact of prior year adjustments)	19.63	20.17
Top Up Grant	48.71	49.67
Other Grants	9.48	5.78
New Homes Bonus	4.48	3.90
Council Taxpayers	250.71	262.25
Forecast Total funding available (excluding Public Health)	382.92	372.98
Public Health Grant	25.94	24.91
Forecast Total funding available (including Public Health)	408.86	397.89

The main reasons for the change in funding sources between 2016/17 and 2017/18 relate to Revenue Support Grant, Council Taxpayers and Other Grants. The Revenue Support Grant change is consistent with the settlement funding announcement - the decrease reflects national reductions in funding available. The amount from Council Taxpayers assumes council tax will rise by 1.99%, with a further 2% increase for the Adult Social Care Levy, each year. The change in Other Grants relate to a reduction in Education Support Services Grant, reflecting the transfer of some schools to academy status

Taking all these assumptions into account it is currently forecast that the total funding available in 2017/18 will facilitate a budget of £397.89 million, some £10.97 million (or 2.7%) lower in cash terms than the revised 2016/17 budget approved by Council.

With regard to future years, based on current information available and assuming council tax increases, indicative funding forecasts for future years are:

	2017/18 £m	2018/19 £m	2019/20 £m
Indicative total funding available	397.9	397.9	402.3

In addition to the above funding streams underlying the base Budget, the Council also receives a number of specific grants to support spending. The most significant of these are as follows:

- **Better Care Fund (BCF)** – this is a programme spanning both the NHS and local government. It has been created to improve the lives of some of the most vulnerable people in society which aims to provide fully integrated health and social care, resulting in an improved experience and better quality of life. Jointly with Health partners over £41.31 million is available through the BCF within Gloucestershire and this is expected to grow from 2018/19 based on announcements made as part of the last settlement.
- **Pupil Premium Grant** – this grant is worth over £19 million to schools and the local authority and provides funding for two policies:
 - raising the attainment of disadvantaged pupils of all abilities, including children in care, to reach their potential
 - supporting children and young people with parents in the regular armed forces.

Spending Pressures

- 8 In addition to addressing potential funding reductions, the MTFS and detailed annual budgets will also need to fund unavoidable cost increases. A detailed process is in place for the 2017/18 budget under which such pressures are identified and formally challenged. The outcome of this process will be finalised in November 2016. However, for budget planning purposes, it is currently forecast that in the order of £19 million will be required in 2017/18 for additional unavoidable cost increases.

Known spending pressures include;

- contractual inflation
- pay inflation
- national living wage
- demand costs relating to the care and protection of vulnerable children and adults
- increased waste tonnages.

Savings Targets

- 9 For budget planning purposes – taking account of the forecast funding reductions of £11 million and the estimate of unavoidable spending pressures of £19 million – it is estimated that savings in the region of £30 million will be needed to balance the budget.

Detailed savings proposals will need to be formulated in the coming months. Proposals to achieve a balanced budget will be presented to Councillors in December 2016 in accordance with the timetable shown later in this report.

Other Issues

10 a) 100% Business Rates Retention (BRR) Update

The Local Government Finance Bill introduced in December 2011 set out the Government's intention to introduce a BRR scheme from 01 April 2013, which it did with a 50:50 split between central and local government, and on which the Council's current funding is based.

The Government has now launched the process for implementing 100% BRR later in this parliament, whereby in theory Gloucestershire would retain 100% of business rates collected within the county, subject to some sort of equalisation process yet to be determined. A national Steering Group has been established to progress this, and it is envisaged that a formal consultation document will be produced over the summer.

The Steering Group has formed to consider and provide information and advice on the mechanisms needed to set up and run the 100% BRR system, and the timing and implementation of the reforms. Three technical working groups have also been established that are currently looking specifically at key aspects of the reforms. These are:

- Systems design
- Needs and distribution
- Responsibilities

The working groups will feed into the summer consultation, and at that time the Council will have the opportunity to respond. Further information can be found on the following web link: <http://www.local.gov.uk/business-rates>

11 b) Academisation Update

The publication by the government of the consultation on the national funding formula for schools and the White Paper 'Educational Excellence Everywhere' identifies significant changes which will limit the role of local authorities and reduce the funding for the services currently provided to schools. The intention is that all schools will become academies, although this is no longer mandatory some will be required to convert due to their Ofsted category and performance. These changes bring a significant financial risk to the Councils funding position due to:

- The loss of the Education Services Grant which funds the support that Local Authorities provide to maintained schools. This will cease from September 2017 with initial estimates predicting a loss of £3.5 million, although all of the statutory duties will continue with the exception of school improvement. This change has been included in the Funding Forecasts 2017/18 to 2019/20.
- The potential loss of income from traded services to schools and the consequent reduction in the contribution to council overheads.
- Redundancy costs from services that are ceasing.
- Deficits from maintained schools falling to the Council as schools convert to academies.

The Council will look to facilitate the change process for schools and identify what services will need to be retained to meet statutory duties. A further detailed consultation is expected imminently which should clarify the Local Authorities role and consequently the financial impact of the proposed changes.

c) Dedicated Schools Grant Update

The Department for Education (DfE) published the first part of a two-part consultation on changes to the Dedicated Schools Grant (DSG) on 7th March 2016 covering:

- A Schools National Funding Formula (NFF)
- A High Needs Funding Reform

The first consultation concentrated on the principles that should be applied and the factors and measures to be included in the new formula.

The second stage of the consultation was due during summer 2016 but has yet to be published. The process and timetable for implementation is now unclear. But the second stage consultation was expected to include detailed proposals on the formula weightings and values, and any transitional measures, which will apply at both local authority and school level. These will have a major impact on the total allocation to Gloucestershire and the subsequent distribution between schools.

It is anticipated that Gloucestershire schools and academies will gain once the national funding formula is fully implemented, however the impact will be unclear until the formula values and proposals on transition are published.. Similarly, there is uncertainty about how the allocation of high needs funding to local authorities will affect Gloucestershire.

The March consultation proposed that, from 2017/18, in addition to the Schools, High Needs and Early Years blocks of the DSG, there is to be a new Central Block.

The current DSG block proposals are:

Schools Block

- The NFF will be introduced from 2017/18 to allocate the schools block of the DSG to local authorities. The schools block will be ring-fenced with a requirement for the total amount to be passed onto schools.
- For the first two years LAs will (as now) have discretion over the formula amounts used to allocate the schools block of the DSG to schools and academies. The Schools Forum will therefore continue to have a key role in advising on the local formula, and funding allocations, for 2017/18 and 2018/19.
- From 2019/20 it will be a 'hard' national funding formula direct to schools and academies, with LAs (and Schools Forums) having no role in setting the mainstream funding formula.

High Needs Block

- The proposals are to continue to allocate funding to LAs for high needs, but from 2017-18 a formula, rather than historic spend basis, will be used to allocate funding, with factors such as population; health; disability; low attainment; and deprivation.
- Local authorities are currently responsible for all high needs funding (including that for academies).

Although the government proposals will have an impact on the amount of high needs block DSG a local authority receives, the proposals do not change the local authority's ongoing responsibility for determining and allocating high needs funding.

Early Years Block

- This is currently allocated to the local authority based on a national rate for eligible 2 year olds and a national rate for eligible 3 and 4 year olds. DfE have indicated that a consultation will take place later in the year on an early years funding formula.

Central Block

- This will fund the on-going duties local authorities hold for both maintained schools and academies. It combines central costs currently within the schools block, e.g. admissions, together with the retained duties element of Education Services Grant (ESG).
- The general element of ESG disappears from September 2017 for both academies and local authorities, with local authorities expected to agree with its maintained schools the level of their DSG retained a local authorities statutory duties.

Local authorities are not expected to be funding any school improvement for maintained schools beyond September 2017.

13 **d) UK Vote to leave EU**

The full implications of the decision on 23 June by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in government policy and any significant changes in the economy may have an impact on local government financing. For now we continue to use the high level forecasts in the public domain for budgeting purposes and continue to monitor any impact on public sector funding and our treasury management activity closely.

Timeline

14 The proposed timetable refreshing the Council Strategy and developing the 2017/18 budget is as follows:

Stage 1 – June to September 2016 – Formulation of Three Year Strategy

Process to include:

- technical review/challenge to be undertaken by finance and performance;
- review of progress in delivering existing Council Strategy commitments;
- review and refresh Commissioning Intentions including the delivery of the MtC2 programme;
- formulation of detailed proposals across the council for consideration as part of a priorities/policy and performance review;
- finalisation and quantification of possible investment priorities and Meeting the Challenge and other savings for 2017/18;
- review of use of Dedicated Schools Grant and all other major revenue grants.
- Review continued impact of academisation.

Stage 2 – October 2016 – Deadline for acceptance of Four Year Funding Offer and preparation of detailed budget proposals for 2017/18 and overview proposals for 2018/19 and 2019/20.

Stage 3 – October to November 2016 - Preparation of detailed budget proposals for 2017/18 and overview proposals for 2018/19 and 2019/20 in the context of the forecast funding position.

Stage 4 – December 2016 – Confirmation of financial settlement and preparation of the refreshed MTFs and budget proposal for 2017/18 for submission to Cabinet on 14th December 2016.

Stage 5 – December 2016 – January 2017 - Formal consultation with the public and stakeholders on the detailed budget proposal.

Stage 6 – January 2017 - Group Leaders, Spokespersons and Scrutiny discussions on detailed budget proposals for 2017/18, and overview proposals for 2018/19 and 2019/20

Detailed discussions at Group Leaders and Political Group Spokespersons (Shadows) meetings and at Scrutiny Committees, to ensure a clear understanding of the issues in relation to potential budget items under consideration. The Overview and Scrutiny and Management Committee will consider their own process for scrutinising the MTFs and Council Strategy.

Stage 7 – Final refreshed Council Strategy, MTFs and budget proposals and decisions – February 2017.

Officer Advice

- 15 The Council is required to produce a Council Strategy and MTFs. Officers recommend the processes and timeline set out in this report and will, wherever possible, use existing financial and performance processes in order to keep the additional burden on the Council to a minimum.

Risk Assessment

- 16 There are a number of key risks relating to the MTFs going forward and these include:
- The increased demand experienced in Adult and Children's Social Care in 2016/17.
 - The future of the Better Care Fund.
 - On-going impact of the National Living Wage.
 - Deliverability of the MtC2 saving proposals.
 - Academisation
 - Local Government Funding Changes
 - DSG Changes
 - Decision to leave EU

Equalities considerations

- 17 There is an existing due regard statement which covers the current Council Strategy, MTFs and budget. This will be reviewed and updated to take account of any changes and will be published alongside the relevant Cabinet and Council reports.

Performance Management / Follow-up

- 18 Monitoring of adherence to the Council Strategy and MTFS will be undertaken under normal performance and finance monitoring procedures during 2017/18.