

**COUNCIL STRATEGY AND MEDIUM TERM FINANCIAL STRATEGY
(2018/19 to 2020/21)**

Cabinet Date	27 September 2017
Leader of Council	Cllr Mark Hawthorne
Finance and Change	Cllr Ray Theodoulou
Key Decision	This is not a key decision
Background Documents	Current Medium Term Financial Strategy and detailed budget for 2017/18 Council Strategy 2017/18 update
Main Consultees	Consultees will include the public, partners, scrutiny, schools and staff
Planned Dates	September 2017 to February 2018
Divisional Councillor	Countywide
Officer	Jo Walker – Strategic Finance Director (01452 328474) Jane Burns – Director : Strategy and Challenge (01452 583848) Paul Blacker – Head of Financial Management (01452 328999)
Purpose of Report	To set out the overall context and outline the process / timetable for producing the Council Strategy and Medium Term Financial Strategy for the period 2018/19 to 2020/21.
Key Recommendation	That Cabinet agree the proposed process for reviewing and developing the Council Strategy and the three-year Medium Term Financial Strategy covering the period 2018/19 to 2020/21.
Reasons for Recommendation	To ensure that the Council has a robust process for formulating the Council Strategy and MTFs covering the period 2018/19 to 2020/21.
Resource Implications	This report deals with the financial budget from 2018/19 onwards.

MAIN REPORT CONTENTS

Background

1. The current Council Strategy and Medium Term Financial Strategy (MTFS), including the detailed budget for 2017/18, were agreed by Council in February 2017. 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 2017/18, issued by the Government in February 2017. This settlement provided information in relation to four years 2016/17 to 2019/20.
3. The new Council Strategy will be developed 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. Initial work on developing a new Council Strategy / MTFS has commenced at an officer level. The documents will be updated to reflect priorities and commitments.

Funding Forecasts – 2018/19 to 2020/21

4. The financial settlement in February 2016 provided an offer to local authorities of financial security to 2019/20. The Council accepted this offer as a minimum funding deal to gain more financial security, back in October 2016 along with over 95% of other Councils. The expectation is therefore that key elements of the main settlement funding assessment are fixed at these levels with no further cuts imposed, however this will not exclude the Council from receiving its share of any new funding announced by the government.
5. In terms of the amount generated from Council Tax the table assumes that the Council tax increase will be 1.99% per annum for the three years covered by the Council Strategy and MTFS plus an additional 2% Adults Social Care Levy in 2018/19 and 2019/20.
6. Table 1 uses the four year funding settlement, the finance settlement in February 2017 and assumed Council Tax increases to forecast future funding to show the anticipated change in funding from 2017/18.

Table 1		
Funding Sources	2017-18 £ millions	2018-19 £ millions
Revenue Support Grant	31.21	19.39
Business rates:		
Top Up Grant	50.67	52.3
Baseline Funding	20.96	21.91

New Homes Bonus	4.04	2.96
Other Grants	7.19	16.02
Council Taxpayers	263.7	277.03
Total (excl. Public Health)	377.77	389.61
Public Health Grant	24.91	24.27
Reserve Transfer	5.02	0
Affordable Budget / Forecast Funding Available	407.7	413.88

It should be noted that the 2017/18 figures above exclude £10.598 million relating to Adult Social Care Funding. This funding stream was not announced in time for inclusion in the 2017/18 Budget, as it was announced in March 2017. For 2017/18 the income has been treated as a specific grant, however it is included above in future years as base funding to ensure that the impact of all the unringfenced grant funding streams are included within future years forecasts.

7. With falling grant income the Council is more reliant on Council Tax income in future years. Revenue Support Grant, which the Council received over £31 million in 2017/18 ceases in 2020/21. New Homes Bonus and Other Grants have almost halved from 2017/18 to 2020/21 with the ending of the Education Support Services Grant and changes to the way that New Homes Bonus is paid. These reductions are off set by additional Adult Social Care grants; however it is unclear whether this grant stream will continue after 2021.
8. Taking all these funding assumptions into account it is currently forecast that the total funding available in 2018/19 will facilitate a budget of £413.88 million, some £6.18 million (or 1.5%) higher in cash terms than the 2017/18 budget approved by Council.
9. With regard to future years, based on current information available and assuming council tax increases, indicative funding forecasts for future years are outline in table 2.

Table 2	2018/19 £m	2019/20 £m	2020/21 £m
Indicative Funding Available	413.9	422.5	421.9

Spending Pressures

10. 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 to identify and calculate the financial impact of these pressures for the period 2018/19 to 2020/21. The outcome of this process will be finalised in November 2017. For budget planning purposes, it is currently forecast that in the order of £35 million will be required in 2018/19 for additional unavoidable costs.
11. Known spending pressures include;
 - contractual inflation
 - pay inflation
 - national living wage
 - demographic changes
 - demand costs for vulnerable Children and Adults

Savings Proposals

12. For budget planning purposes taking account of the forecast funding increase of £6million and the spending pressures of £35 million less the one off investments of £10.5 million agreed in February council gives an estimated savings target of £18.5 million.
13. Detailed savings proposals will need to be formulated in the coming months and proposals to achieve a balanced budget will be presented to Cabinet in December 2017 in accordance with the timetable shown later in this report.

Other Issues

100% Business Rates Retention (BRR) Update

14. The Local Government Finance Act 2012 introduced a BRR scheme at a 50:50 split between central and local government (central and local share). For Gloucestershire as a whole the 50% local share is split between the districts and the county as a two tier area, 40% to districts and 10% to the County. On 31st January 2017 the Local Government Finance Bill was published setting out the framework for 100% BRR.
15. After the General Election in June 2017 there was some confusion on the future of implementing 100% BRR as the Conservative manifesto pledge failed to explicitly mention the policy. As a result all the national working parties except for one, which was looking at the measurement of “need”, were suspended.
16. On 1 September 2017 central government published an invitation to local authorities to pilot 100% BRR for one year, 2018/19, and to pioneer new pooling and tier split arrangements. This would suggest that 100% BRR is back on the agenda, and therefore the Council is now reviewing the invitation with district colleagues to determine whether it would be beneficial for the councils to put in a submission.
17. The introduction of 100% Business Rate Retention is generally considered to be the most fundamental changes in local government funding for several decades. It is therefore likely to have a significant impact of the Council’s finances during the term of the new MTFS. Councillors will be kept fully briefed as details of the scheme become clear.

OFSTED Inspection

18. Following the publication of the OFSTED report into Children’s Services the Council has drafted an Improvement Plan, which was approved on 18 September. Cost pressure estimates associated with the impact of Ofsted and the improvement plan have been built into the budget forecast and will be refined as the financial implications become clearer.

Funding for Adult Social Care

19. There is widespread recognition that there is significant pressure on Adult Social Care budgets. In recognition of this pressure the Government have introduced a series of

funding mechanisms. These funding mechanisms are a series of one-off or time limited funding. A long term funding solution has not been announced.

20. The new funding mechanisms announced include;
- Adult Social Care Levy – the Council have used this mechanism to increase Council Tax by an additional 2% per annum in 2016/17 and 2017/18 and current funding assumptions are that this power will be used to raise Council Tax by 2% per annum in the following two years. There is no power to use this mechanism to generate additional Council Tax income in 2010/21 and beyond
 - Adult Social Care Grant – an additional one-off grant of £2.5 million was announced in the draft Finance Settlement. There are no plans for this grant to continue beyond 2017/18.
 - Social Care Funding – as part of the Government Budget in March 2017 and additional £2 billion funding was announced for Adult social care funding. Gloucestershire’s element of this funding was £10.6 million in 2017/18, £7.2 million in 2018/19 and £3.6 million in 2019/20. This funding ceases in 2019/20.
 - Improved Better Care Fund – this is £6.8 million in 2018/19 rising to £13.3 million in 2019/20 and 2020/21. There is no detail for 2021/22 and beyond.
21. The current environment of increasing pressures and uncertainty about long term funding means that Adult Social Care is likely to be a significant issue that needs to be addressed in the Council’s medium and long term financial planning.

Dedicated Schools Grant (DSG) and National Funding Formula (NFF) for Schools

22. The Department for Education (DfE) published a two part consultation on changes to the DSG covering a Schools NFF and a high needs funding reform. The first part issued on 7 March 2016 concentrated on the principles that should be applied and the factors and measures to be included in the new formula.

The second part of the consultation which ended on the 22 March 2017 sought views on the detailed design of the formula including the formula weightings and values.

23. On 17 July 2017 the secretary of state made a statement on school funding and on 4 August the DfE published an Operational Guide on Schools Revenue Funding for 2018/19. Although both of these contained additional pertinent information, the full details of the DSG allocations and the national funding formula will not be known until the Government’s response to the overall consultation is published in September 2017 and the DSG data and allocations are released in December 2017.

The key announcements to date are:

From 2018/19 the DSG will change from three funding blocks to four. These will be the existing funding blocks for Schools; High Needs and Early Years together with a new Central Schools Services Block (CSSB) which will cover the LA statutory responsibilities for both maintained schools and academies. These CSSB responsibilities are currently being funded from the Schools Block so this is simply a movement of funds between the two blocks.

24. No local authority will see a reduction in its cash allocation for the high needs block or its per pupil allocation for the schools block.
25. Confirmation that there will be a National Funding Formula for schools and for pupils with high needs implemented from 2018/19.

26. The government is bringing forward additional funding of £1.3 billion, on top of existing spending plans, in 2018/19 and 2019/20. As a result, national core funding for schools and high needs will rise from almost £41 billion in 2017/18 to £42.4 billion in 2018/19, and to £43.5 billion in 2019/20.

27. The increased funding means that the new formula will provide:

- an increase in the basic amount that every pupil attracts through the formula
- continued protection for funding for additional needs
- a minimum of £4,800 per pupil provided for every secondary school
- for the next two years, gains of up to 3% a year for underfunded schools and a 0.5% a year per pupil cash increase for every school

28. For 2018/19 and 2019/20 the formula will not be used to allocate funding direct to schools, but will be used to allocate funds to local authorities with additions based on historic spending for exceptional premises costs, mobility and growth. Local authorities will then continue to set a local formula to distribute that funding, and to determine individual schools' budgets, in consultation with schools and their Schools Forum.

It should be noted therefore that although the increases mentioned above will form part of the Schools Block DSG funding to local authorities, the impact on individual schools will depend upon local decisions on the formula and the operation of the Minimum Funding Guarantee and Capping requirements.

29. The high needs block is expected to increase by 0.5% (around £285k) for 2018/19 but then to remain at the same cash level for the next three years. Spending against the high needs block is under major pressure, particularly from a rapid rise in the number of children with Education Health and Care Plans. A major review has been launched to tackle areas where outcomes are a concern and to contain spending within budget over the medium term.

30. Spending plans and how the NFF will be allocated for the years beyond 2019/20 will be set out by the Government in a future spending review.

Timeline

31. The proposed timetable for developing the 2018/19 to 2020/21 budget is as follows:

Stage 1 – June to September 2017 – 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 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 savings for 2018/19;
- review of use of Dedicated Schools Grant and all other major revenue grants.

Stage 2 – October 2017 – Preparation of detailed budget proposals for 2018/19 and overview proposals for 2019/20 to 2020/21

Stage 3 – December 2017 – Confirmation of financial settlement and preparation of the Council Strategy MTFs and budget proposal for 2018/19 to 2020/21 for submission to Cabinet on 13th December 2016.

Stage 4 –December 2017 – January 2018 - Formal consultation with the public and stakeholders on the detailed budget proposal.

Stage 5 – January 2018 - Group Leaders, Spokespersons and Scrutiny discussions on detailed budget proposals for 2018/19 to 2020/21.

Detailed discussions at Group Leaders 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 6 – Final budget proposals and decisions – February 2018

Officer Advice

32. 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

33. There are a number of key risks relating to the MTFs in the future and these include:
- The increased demand experienced in Adult and Children’s Social Care in 2017/18, particularly in Childrens post Ofsted.
 - The future of the Better Care Fund and Improved Better Care Fund.
 - On-going impact of the National Living Wage.
 - Deliverability of the saving proposals.
 - Local Government Funding Changes
 - DSG Changes

Equalities considerations

34. A detailed Due Regard Statement accompanies the existing County Strategy and MTFs. This will be updated throughout the development of the new documents.

Performance Management / Follow-up

35. Monitoring of adherence to the Council Strategy and MTFs will be undertaken under normal performance and finance monitoring procedures during 2018/19.