MEDIUM TERM FINANCIAL STRATEGY – 2018/19 to 2020/21

Cabinet Meeting	13th December 2017
Leader **Cabinet Member**	Cllr Mark Hawthorne, Leader of Council Cllr Ray Theodoulou, Deputy Leader and Lead Cabinet Member for Finance and Change
Key Decision	Yes
Other Documents	Council Strategy and Medium Term Financial Strategy 2016/17 – 2018/19 Council report: 15th February 2017 Council Efficiency Plan 2016/2020
Main Consultees	Public, Schools Forum, Partners, Business Representation, Members of the Council, Scrutiny Committees, Trade Unions, Staff.
Planned Dates	December 2017 to January 2018
Divisional Councillor	All Councillors
Officers	Jo Walker Tel: 01452 (32) 8469 Strategic Finance Director Jane Burns Tel: 01452 (32) 8472 Director Strategy & Challenge Paul Blacker Tel: 01452 (32) 8999 Head of Financial Management
Purpose of Report	To set out the budget strategy, the detailed draft budget for 2018/19 and the MTFS covering the period 2018/19 to 2020/21.
Recommendations	Cabinet is recommended to: *Approve for consultation and scrutiny the proposed detailed budget for 2018/19 and the MTFS (including Dedicated Schools Grant which will be considered by the Schools Forum), and the Treasury Management Strategy*
Resource Implications	The report is concerned with the Council's overall budget and the financial implications thereof.

Main Report Contents

1. Introduction

This draft Medium Term Financial Strategy (MTFS) is presented as the basis for consultation and scrutiny, prior to final Cabinet approval on 31st January 2018, and recommendation to County Council on 14th February 2018. It has been prepared using best estimates from available data, with the provisional financial settlement due in December 2017. Any amendments required as a result of the financial settlement will be in the final budget submitted to County Council.

The MTFS contains the proposed budget for 2018/19. The budget totals £407.16 million and is based on a 1.99% Council Tax increase. In addition there is the continuation of the 'social care precept' allowing upper-tier authorities to increase council tax levels by up to 2% specifically to fund Adult Social Care. This 2% social care precept raises an additional £5.42 million for Adult Social Care services.

2. The Council Strategy 2018/19

Alongside the MTFS, we will also be bringing a refreshed Council Strategy to Cabinet in January 2018. The existing strategy runs to March 2018. The refreshed strategy will set out how the Council will address the issues we are facing in the short-term, as well as setting a clear path for the next generation.

The strategy will describe how the Council will deliver the 5 priorities which are reflected in Section B of the MTFS, as well as how we will measure and report progress.

3. Funding Forecast

The funding environment for local authorities is increasingly complex. Cuts in government grant have been a feature of the settlement, and indications are that these are set to continue to the end of the current Spending Review (CSR) in 2019/20. In 2016/17 central government made an offer to local authorities, which included details of the settlement for four years (over the CSR period), instead of just one year. This increased the certainty of the main funding streams and the allocations. The Council accepted this offer as a minimum funding offer, signing up to the four-year deal. The budget for 2018/19 has been based on the figures the Council signed up to, which were honoured in the 2017/18 settlement in February 2017 and expected in the 2018/19 settlement. The provisional 2018/19 settlement is expected in mid December 2017, with the final settlement expected in February 2018.

<u>Financial Settlement</u>

The Council receives its funding through a number of sources; government grant, business rates retention income, council tax and charging for some of its services through fees and charges.

The main un-ringfenced grants received from central government that form the settlement are Revenue Support Grant (RSG) and Business Rate Top Up Grant (which is part of the Business Rates Retention Scheme funding (BRR). The current BRR Scheme was introduced from 2013/14. The Scheme allows the Council to retain some of the business rates raised locally. The business rate yield is divided equally between central and local government. The Council's share of the locally retained element is 20%. The Top Up grant is received in order to protect upper tier services.

Under the latest proposals, by the end of the CSR period in 2019/20, RSG will have reduced by 84%, whilst Top Up grant remains relatively stable increasing in line with CPI, the Council's share of business rate yield is forecast to rise in line with CPI.

<u>Other Funding Streams</u>

In addition to the main un-ringfenced grants received, the Council also receive a number of other grants, which central government include in their presentation of Core Spending Power of local authorities. These include:

- Public Health Grant
  Public Health funding is expected to reduce by 3.9% in real terms to 2019/20 and following an announcement in March 2017, ring fencing was extended into 2018/19. The Council has forecast a reduction of around 2.5% for 2018/19.

- Improved Better Care Fund
  The CSR announced an additional £1.5 billion by 2019/20 through the Improved Better Care Fund. From 2018/19 the Council will receive £6.8 million, which forms part of the overall budget of the Council for 2018/19. The Council continues to work closely with Health partners to facilitate more integrated working between health and social care.

- New Homes Bonus (NHB)
  The Government introduced the NHB as a cash incentive scheme to reward councils for new home completions and for bringing empty homes back into use. This provided match funding for each new property, originally for six years, but now reduced to four years plus a bonus for each affordable home. The Council's allocation of grant reduced by around 10% in 2017/18, and expectations are that it will reduce by a further 27% to £3 million for 2018/19.

Well over half of the Council's funding now comes from Council Tax. The general Council Tax referendum limit for local authorities remains at 4%, including the Adult Social Care levy as last year. The budget for 2018/19 proposes to raise council tax by 1.99%, which generates estimated income of £5.17 million and the Adult Social Care Levy of 2% which generates an estimated £5.19m (both these amounts are calculated excluding the impact of any increase in the taxbase). Both these measures help to mitigate the impact of the reduction in government grants outlined above and fund pressures on council services.

Following dialogue with the district councils additional funding has been built into the base budget for an estimated 1.5% increase in the tax base for the county. Once this is added to the taxbase the revenue gained by a proposed tax increase outlined above rises. The Council gains £5.42 million from the ASC levy, (£5.19 million tax 2% increase plus £0.24 million taxbase uplift), and £9.22m from the general council tax increase (£5.17 million 1.99% council tax increase plus £4.05 million taxbase uplift). An estimated surplus of over £3 million on the Collection Fund is also assumed. District councils will be confirming all these figures by the 31st January 2018 deadline before the budget is approved by Council in February 2018.

Alongside the settlement there are other significant changes that impact on local government, that are affecting the financial forecasts for the Council. This includes the move to 100% BRR and Business Rate Pilots, and the Fair Funding Review.

100% BRR and Business Rate Pilots

The Local Government Finance Bill was published on 13th January 2017. Its main purpose was to put in place the framework for 100% BRR. However, with the General Election in June 2017 this Bill was withdrawn, and was not mentioned in any subsequent publications.

Then on the 1st September 2017 the Department for Communities and Local Government (DCLG) published an "Invitation to local authorities to pilot 100% business rates retention in 2018/19 and to pioneer new pooling and tier-split models," with a deadline of 27th October 2017. Extensive modelling work was undertaken by the council and the six district councils supported by an external consultant which reviewed the risks and benefits and resulted in a bid to DCLG. In the event the bid is successful it could result in a one off financial benefit in 2018/19 for all seven councils. Further detail is available in the November Budget Monitoring report, which authorised the Director: Strategic Finance, in consultation with the Deputy Leader and Cabinet Member for Finance and Change, to commit Gloucestershire County Council to entering into the pilot for 100% Business Rates Retention in 2018/2019 for Gloucestershire in the event the bid to DCLG is successful.

DCLG are expected to announce successful pilots in December 2017 alongside the provisional financial settlement announcements. If the Gloucestershire bid is unsuccessful, the existing Gloucestershire Business Rates Pool would continue in 2018/19 (excluding Tewkesbury).

The Gloucestershire Pool

The Council entered into a pooling agreement with all six district councils in the county in 2013/14. The reason for this was to retain a larger proportion of additional business rate income within the county, as a result of paying a lower levy on growth, above the baseline, to central government to support council services and economic growth.

In the first year of operation, 2013/14, the Pool reported a surplus, however in 2014/15 the Pool suffered a loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury. An improved position was reported in 2015/16 and 2016/17 with the Pool once again in a surplus. Latest modelling forecasts a surplus for 2017/18.

Due to on-going issues and concerns around the appeals issue with Virgin Media, the Pool reformed from 2016/17 to exclude Tewkesbury Borough Council, thus reducing the risk of a deficit occurring. As mentioned earlier if the 100% BRR bid to DCLG is unsuccessful, the current arrangement for the Pool will continue into 2018/19, excluding Tewkesbury.

Fair Funding Review

The National Fair Funding Review is reviewing the underlying needs formula and distribution methodology used for assessing need and allocating funding to Local Government because the formula has not been reviewed since 2013. DCLG are looking for a formula based model with common cost drivers such as population, sparsity and deprivation, which are relevant, objective, distinct, stable and future proof. Originally, the review was expected to be completed in time to implement the new approach by 2019/20 however it is now not expected to be implemented until 2020/21.

A consultation paper is expected imminently, and the Council will review and feed back as necessary on this. Of particular importance will be “transition” (or damping) arrangements that are put in place, so that authorities can develop financial plans with some knowledge of the potential “worst-case” scenario. The design of this “transition” is going to be crucial, as well as the amount and timing of transition allowed.

4. Budget Pressures

The proposed budget for 2018/19 contains provision to fund key budget pressures including unavoidable contractual inflation, pay (1%) and increases in demand led services. In addition the proposed budget includes funding for key Administration priorities and additional funding for Children & Families following the recent OFSTED inspection.

5 Budget Summary

The proposed revenue budget for 2018/19 totals £407.16 million, a net reduction of £0.54 million from 2017/18 – this is made up of £28.72 million of investment in services offset by £29.26 million of savings and efficiencies.

In addition to the permanent investments included in the MTFS document the 2018/19 budget proposals include a number of one-off investments funded from the Transformation Reserve. These are:-

- **£1.59 million - Growing Our Communities Fund**

  Building on the success of the three grant programmes; Active Together, Healthy Together and the Children’s Activity Fund this proposal takes the learning from the running of these three programmes from 2014 – 2017. The evaluation and feedback from stakeholders revealed the following benefits of a small grants programme:

  It helped to foster good relationships and mutual trust between GCC and the VCS. Members were pivotal to the success of the programme by adopting a light touch approach. The Council has built many positive relationships with local charities and social enterprises who appreciated the flexibility the grants gave them to help meet local needs without too many strings attached.

The grants have encouraged and inspired the development of local solutions. Small grants can lever in additional funding and help to grow volunteer capacity thus increasing community resilience. Many projects harnessed existing skills and knowledge within the community to deliver their outcomes.

Recognising that these programmes will finish at the end of 2017/18 the MTFS proposes a Growing our Communities Fund 2018 – 2021, which is a member led communities grant programme. The purpose of the fund is to launch a grants programme that invests in active communities by supporting projects and activities that will make a positive difference to local communities. This light touch support to community initiatives would aim to:

- contribute to identifying and reduce social isolation;

- develop self supporting community hubs;
- support digital/virtual support networks
- promote healthy lifestyles
- Support safer neighbourhoods

The proposed £1.590 million reflects a sum of £30,000 being available to each councillor over a three year period (2018/19 to 2020/21) to fund community based investments as described above.

- **£0.53 million - Lengthsman Scheme**
  Following the success of the Lengthsman scheme and additional one off funding in 2017/18, the MTFS proposes an additional one off £0.53 million in 2018/19 to continue the scheme after which it will become incorporated into the new Highways contract.

- **£2.74 million - A417 Reserve**
  Given the Cabinet's commitment to the £4 million support to the A417 highways safety improvement work, a further £2.74 million is proposed to be added to the A417 Reserve to create the total funding commitment of £4.0 million.

A summary of this draft budget is provided below. This excludes the proposed one off investments to be funded from Reserves.

Overall Budget

MTFS 2018/19 Budget Summary

Budget Area	Approved 2017-18 MTFS Base Budget	Removal of 2017-18 One Off Investments from Service Areas to T&C	2017-18 Agreed Base Budget Adjustments; Corporate budget and cross cutting saving allocations	2017-18 GCC Revised Base Budget	Cost Reductions	Cost Increases (Including Inflation)	Proposed 2018-19 Budget	Cash Increase / Decrease	Percentage Increase / Decrease
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Programme Budget Areas									
Adults	**136,882**	-4,035	-946	**131,901**	-11,561	12,255	**132,595**	694	0.53%
Children and Families Vulnerable Children	**58,683**	-1,610	-178	**56,895**	-	10,985	**67,880**	10,985	19.31%
Children and Families - Other Services	**30,641**	-410	-312	**29,919**	-891	380	**29,408**	-511	-1.71%
Communities and Infrastructure	**83,804**	-4,520	-621	**78,663**	-527	2,198	**80,334**	1,671	2.12%
Business Support	**25,138**	-	944	**26,082**	-666	2,299	**27,715**	1,633	6.26%
Technical and Corporate	**47,642**	10,575	1,113	**59,330**	-14,975	606	**44,961**	-14,369	-24.22%
Total GCC	**382,790**	**-**	**-**	**382,790**	**-28,620**	**28,723**	**382,893**	**103**	**0.03%**
Public Health	**24,912**	-	-	**24,912**	-640	-	**24,272**	-	0.00%
Total Budget	**407,702**	**-**	**-**	**407,702**	**-29,260**	**28,723**	**407,165**	**-537**	**-0.13%**

6 Public Sector Equality Duty

A Due Regard Statement is being drafted and will be updated in January 2018 to include the evidence base about service users and workforce and the final budget proposals.

7 Capital Programme

The capital programme provides total investment in the county totalling £490.09 million. The main investment relates to Communities and Infrastructure (£256.92 million), Schools and facilities for children (£149.86 million) Business Support (£58.84 million) and Adults (£24.47 million). Consistent with the Council's priority to reduce the level of long term debt, and the impact of interest and capital repayments on the revenue budget, the capital programme for 2018/19 is largely "capped" at the level of developer contributions, capital grants received and revenue contributions from capital financing budgets with internal borrowing only being used for key administration priorities.

The above figures exclude the Renewable Energy Generation - Solar Farm scheme under which the Council was to finance the design, build and operation of medium-scale ground-mounted solar Photovoltaic (PV) generation facilities on a number of sites. The scheme was originally approved in February 2015 funded from internal borrowing, subject to further detailed evaluation. Due to Government changes to renewable energy subsidies (feed in tariffs) the sites approved are not currently financially viable and therefore the MTFS proposes to remove this scheme from the programme making £12.795 million of internal borrowing available to fund investment in infrastructure as outlined further on in the report. Development work around opportunities to invest in new projects relating to Energy Supply Technologies is ongoing and in the event a viable project emerges, it will be presented to Cabinet for approval with a new business case including relevant funding options.

The capital programme for 2018/19 onwards contains £167.59 million of new investment on capital schemes, financed from grants and capital financing budget, as set out in the table below.

Priority schemes not supported by grants or contributions have been included within the new programme on the basis that they can be funded from capital receipts, internal borrowing, revenue contributions and contributions from reserves, thereby avoiding the need for new borrowing. These new schemes recommended for approval amount to £63.67 million.

The proposed capital programme includes significant investment – the vast majority of projects will be funded from government grants or capital financing budgets. New borrowing is only planned for two major investment projects – Cheltenham School where we have a statutory duty to provide sufficient school placements and highway investment to fulfil the manifesto promise of investing £150 million in highways over the next 5 year period.

Funding for New Capital Investment

Grant	£000
Adults - Disabled Facilities Grant 2018/19 (estimate)	5,561
Children and Families – Basic Need Grant 2018/19 (balance remaining)	13,970
Children and Families – Basic Need Grant 2019/20	12,565
Children and Families – Schools Condition Allocation 2018/19 (estimate)	5,131
Children and Families – Special Provision Fund 2018-19	650
Children and Families – Special Provision Fund 2019-20	650
Children and Families – Special Provision Fund 2020-21	650
Communities & Infrastructure – Highways Maintenance Block Grant 2018/19	14,350
Communities & Infrastructure – Highways Maintenance Block Grant 2019/20 (indicative)	14,350
Communities & Infrastructure – Highways Maintenance Block Grant 2020/21 (indicative)	14,350
Communities & Infrastructure – Highways Maintenance Incentive Grant 2018/19 (estimate)	2,994
Communities & Infrastructure – Highways Maintenance Incentive Grant 2019/20 (estimate)	2,994
Communities & Infrastructure – Highways Maintenance Incentive Grant 2020/21 (estimate)	2,994
Communities & Infrastructure – Integrated Transport Block Grant 2018/19	2,861
Communities & Infrastructure – Integrated Transport Block Grant 2019/20 (indicative)	2,861
Communities & Infrastructure – Integrated Transport Block Grant 2020/21 (indicative)	2,861
Communities & Infrastructure – National Investment Productivity Fund 2018/19	2,696
Communities & Infrastructure – Pothole Action Fund 2018/19	1,435

Total Grant	**103,923**
Capital Financing Budgets	**63,669**
Total New Capital Funding 2017/18 onwards	**167,592**

8 Consultation Undertaken

Following the publication of the budget proposals, a consultation will be launched between 14th December 2017 and 17th January 2018. Stakeholders will be asked to give us their views on our overall priorities, council tax levels (including the National Adult Social Care levy), and the Council's draft budget.

This will take place with the following groups:

- All Gloucestershire residents,
- Key partners including Health, the Independent and Voluntary sectors and town and parish councils,
- Trade Unions and professional associations,
- Staff, via the usual communication channels,
- Gloucestershire businesses
- Schools, via the schools forum, open meetings and Head Teacher groups

The Overview and Scrutiny Management Committee have also agreed that they will carry out their budget scrutiny process in January 2018. The Scrutiny meeting has been arranged for 10th January 2018, and will include briefings from Directors and Cabinet Representatives.

Following these meetings the Scrutiny Management and Overview Committee will feed back their views to the Cabinet prior to the final budget being developed.

Following consultation, the MTFS, Council Strategy and supporting policy documents will be considered by Cabinet again on 31st January 2018, with the recommended budget being considered by the County Council on 14th February 2018.

9 Forward Draft Plans for the Revenue Budget in 2019/20 and 2020/21

The Council's plans are set for the three years covering 2018/19 to 2020/21. The proposed detailed budget for 2018/19 is set out within the MTFS, whilst the current draft forecast budgets for 2019/20 and 2020/21 are:

	2019/20	2020/21
	£m	£m
Budget	419.2	422.3

These are forecast financial positions for 2019/20 and 2020/21 and will be updated as further information becomes available.

10 Treasury Management

The proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 is set out in the draft MTFS. This strategy proposes a new Minimum Revenue Provision policywhich is set out in detail within the strategy which delivers a £2 million saving per annum as outlined in the proposed MTFS.

The Strategy takes account of the Code of Practice for Treasury Management in the Public Sector. It will be considered by the Audit and Governance Committee on 26th January 2018 and any comments will be reported to Cabinet on 31st January 2018 and County Council on 14th February 2018.

11 Reserves

Under the Local Government Act 2003, the Council has a responsibility to ensure that reserves are adequate. During 2017/18 all reserves have been examined in detail.

A summary of the Council's forecast reserves as at 31st March 2018 and movements since 31st March 2017 are as follows:

	31st March 2017 £000	31st March 2018 £000
Earmarked Reserves – Non Schools	112,689	96,166
Earmarked Reserves - Schools Related	24,483	24,483
General Fund Reserves	19,848	18,553
Total Capital Reserve	78,388	78,388
Total Reserves	**235,408**	**217,590**

As shown above, Non School Revenue Earmarked Reserves are forecast to fall from £112.689 million as at 31st March 2017 to £96.166 million as at 31st March 2018, a reduction of £16.523 million. It has been assumed that both School Related Reserves and Capital Reserves will remain at the level of balances held at 31st March 2017.

General balances are anticipated to reduce to a level of £18.553 million, following support to the 2017/18 revenue budget approved by County Council in February 2017. This also assumes a balanced revenue outturn position for 2017/18. This equates to 4.56% of the 2017/18 net budget. If an over spend occurs in 2017/18, general fund balances are likely to reduce further.

12 Risks

In preparing the budget the following factors mitigate the risks in the budget:

- Account has been taken of current spending trends and, where known and affordable within the core finance available to the Council, additional costs have been built into the proposed 2018/19 budget.
- Budget risks have been explicitly considered in preparing the budget and taken into account, particularly the funding constraints going forward.
- The level of reserves has been examined and will continue to be closely monitored during the period of this MTFS, in the context of protecting the Council from existing and future liabilities, particularly the financial risk associated with the backdating of sleep In allowances following recent case law.
- Balancing the Council’s budget over this period of financial constraint requires a series of major challenges. Whilst robust programme management plans have been put into place to deliver these savings, as evidenced by performance over the last three years, there is inevitably some residual risk.
- The highest risk areas continue to be demand led services, especially care for older and vulnerable people including Children in Care where demand is rising and the impact of the recent Ofsted judgement is having an impact. Although additional resources are being invested in these areas under the proposed 2018/19 budget options, they are limited by the core funding and local taxation alternatives available to the Council.
- Provision has been made for pay awards, pension and national insurance increases, contractual inflationary pressures and the forecast impact of the new National Living Wage.
- The reserves held are invested and the interest received supports the Council’s budget.
- Consideration to the funding pressures within the DSG High Needs Block Funding has been made. Whilst the Council has a programme in place to resolve this issue, if the High Needs block continues to overspend this will be initially funded through available DSG balances and further measures would be taken to reduce expenditure. Ultimately if these measures were not successful then eventually there would be a risk that this liability could fall on the Council.

13 Next Steps

Following consultation and scrutiny, the MTFS and detailed budget for 2018/19 will be reviewed by Cabinet on 31st January 2018 for recommendation to Council on 14th February 2018.