FINANCIAL MONITORING REPORT: 2018/19 **AGENDA NO: 5**

Cabinet Date	10th October 2018
Lead Cabinet Member	Raymond Theodoulou**,** Deputy Leader and Cabinet Member for Finance and Change
Key Decision	Yes
Other Documents	MTFS Report to 14th February 2018 County Council, and Financial Monitoring Reports to Cabinet 18th July 2018
Main Consultees	Corporate Management Team, Senior Officers, Cabinet Members.
Planned Dates	Not applicable
Divisional Councillor	County Wide
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Purpose of Report	To provide an update on the year-end forecast for the 2018/19 County Council's Revenue and Capital Budgets
Key Recommendations	That the Cabinet: 1. Notes the forecast revenue year end position as at the end of August 2018 for the 2018/19 financial year of a net £2.711 million overspend. 2. Notes the forecast capital year end position as at the end of August 2018 of £0.248 million slippage against the current budget of £103.731 million. 3. Notes the forecast overspend in the Dedicated Schools Grant (DSG) of £3.24 million in 2018/19, which exceeds the £2.4 million of uncommitted DSG balances brought forward, and endorses on going discussions with the Schools Forum to agree actions to bring DSG back into balance in future years. 4. Notes the recommendation to Council regarding the funding of the M5 Junction 10 works within the Cheltenham Cyber Business Park – Transport Mitigation and M5 Junction 10 Business Case Development report elsewhere on the agenda. 5. Approves a one off transfer of £0.5 million from the Insurance budget in Technical and Corporate to Highways to support the costs associated with the demobilisation of the Amey contract and the mobilisation of the new highways contract.

	6. Approves the allocation of £1.470 million of the additional Business Rates Retention (BRR) pilot income of which £1 million will be used to offset demand pressures within Adult Social Care and £0.470 million will be used to fund electric vehicle infrastructure. Both these allocations are in line with those approved by Council in February 2018. 7. Approves the addition of £0.013 million to the Highway Capital budget funded from a variety of sources as outlined in the body of the report. 8. Approves the transfer of £0.150 million from the Highways Capital Programme to the Strategic Infrastructure Capital Programme to fund the anticipated overspend on the Priory / Oakley flood alleviation scheme. 9. Notes the risks and opportunities associated with entering into a Gloucestershire 75% Business Rates Retention Pilot in 2019/20 and: • Support the application to the Government to become a pilot 75% Business Rates Retention in 2019/2020 for Gloucestershire. • Authorise 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 75% Business Rates Retention in 2019/2020 for Gloucestershire in the event the bid to DHCLG is successful. • Notes that in the event the pilot bid is unsuccessful then the Council will remain in the Gloucestershire Business Rates Pool for 2019/2020.
Resource Implications	These are detailed within the report

Revenue Expenditure 2018/19

A. Revenue Forecast Outturn Position 2018/19

1. The current forecast of the year end revenue position against the revenue budget of £418.081 million, based on actual expenditure at the end of August 2018 and forecasts made in September 2018, is a £2.711 million overspend (0.66% of the budget)

2. Details of the forecast year end position, analysed by service area is provided in the table below and the narrative that follows.

Directorate Breakdown for Cabinet Report - Position as at the end of August 2018

Service Area	2018/19 Budget	Additional Budget from BRR Pilot	Revised 2018/19 Budget	Forecast Outturn Position	Forecast Outturn Variance	Variance %	Forecast Variance Previously reported	Change in variance
	£000	£000	£000	£000	£000	%	£000	£000
Adults	**143,226**		**143,226**	143,226	0	0.0%	0	0
Prevention & Wellbeing	**33,953**		**33,953**	33,913	-40	-0.1%	-40	0
Children & Families	**103,268**	**2,600**	**105,868**	112,189	6,321	6.0%	3,540	2,781
Communities & Infrastructure	**86,952**	**530**	**87,482**	88,183	701	0.8%	0	701
Business Support Services	**28,639**		**28,639**	28,639	0	0.0%	0	0
Support Services Recharges	**-28,639**		**-28,639**	-28,639	0	0.0%	0	0
Total for Services	**367,399**	**3,130**	**370,529**	**377,511**	**6,982**	1.9%	**3,500**	**3,482**
Unallocated BRR Pilot Money	**0**	**1,470**	**1,470**	1,470	0	0.0%	0	0
Technical & Corporate	**46,082**		**46,082**	41,811	-4,271	-9.3%	-1,500	-2,771
Total	**413,481**	**4,600**	**418,081**	**420,792**	**2,711**	0.65%	**2,000**	**711**

Adult Social Care

3. Adult Social Care is reporting a balanced position. While there is an underlying in year overspend forecast of £0.4 million this will be managed down to a balanced position by drawing down on Adult Care reserves – which currently stand at £4.6 million.

4. A request is being made to Cabinet to release the £1m ear marked for Adults by Council within the Business Rate Retention (BRR) pilot to support demand pressures including workforce resilience and preparation with winter planning and associated winter pressures.

5. The Adult Social Care Support Grant is temporary funding available to Adult Services in 2018/19. All of the £1.581 million available has been allocated in year to offset the underlying overspend.

6. The MTFS savings targets for all client groups are integrated under the Adult Single Programme (ASP) and monitored through Weekly Governance meetings and the ASP Board. Savings targets are grouped into seven clusters.

7. LD External Care is projecting a £2.300 million overspend. The overspend assumes the majority of 2018/19 savings targets will be found, although there are risks around a number of these. Banked savings to date total £1.513 million. The overspend relates to increased caseload and increased complexity of some cases.

8. OP and PD External Care is projecting a £1.261 million overspend. The overspend assumes full delivery of 2018/19 savings targets. £5.750 million of savings are included within the forecast (in line with targets), though there is risk of not achieving these savings in full - £0.477 million has been banked to date. The overspend mainly relates to increased care needs and therefore costs for existing cases, and also voids within homes run by a major provider.

9. Mental Health is forecasting an overspend of £0.822 million, net of unallocated MTFS funding held by the Lead Commissioner. The overspend relates to increasing complexity and hence higher unit costs.

10. The Community Equipment Service (CES) / Telecare budget is forecasting a minor underspend of £0.005 million. As in last financial year the CES position is being supported by the Disabled Facilities Grant.

11. Other Services comprise all staffing budgets for Adult Social Care, as well as a number of specific commissioned contracts. The forecast position for these services nets to a £0.235 million overspend including;

a. £1.831 million significant overspends; LD in-house services (£0.849 million), due to MtC2 Service Reshaping savings not yet found (now fully incorporated within the ASP) and LD Assessment and Care Management teams (£0.646 million), due to permanent funding not secured previously for pay costs. In addition, a £0.228 million overspend is reported for the Occupational Therapy Service, and £0.108 million for Community Meals, reflecting proposed savings not now achievable in the current year.
b. A detailed exercise is being completed to review all LD budgets, after which the £0.500 million Adult Care Levy will be permanently allocated to address underlying budget pressures.
c. £1.320 million significant service underspends; OP/PD Integrated Social Care Management (ISCM) and Brokerage/ Direct Payment teams, due largely to vacancies (£0.342 million), £0.240 million unallocated government grant, £0.327 million LD Enablement pay budget, due to unfilled vacancies, and an underspend in the OP/PD Reablement Service (£0.411 million), also due to vacancies.
d. A number of smaller service variances (under £0.100 million) netting to a £0.276 million underspend.

12. Unallocated budgets are reporting as underspent by £3.450 million. This is mainly because the ASP has been set £2.104 million higher than the 2018/19 MTFS savings total, to offset brought forward overspends in external care budgets. This position is being closely monitored within the ASP governance process. In addition there is £0.866 million of ASC Levy not yet allocated, £0.500 million as noted in para 12b above, and £0.366 million held to support any pressures that are emerging from the use of temporary funding, particularly from the first year of the Additional Improved Better Care Fund (£10.598 million) .

Prevention and Wellbeing

13. Services within this area include Public Health, Supporting People and a number of smaller budgets covering the prevention hub team and grants.

14. The current forecast of the year end revenue position is an under-spend of £0.04 million and is due to staff vacancies within the prevention hub team.

15. Public Health is reporting a balanced position. Services are funded by a ring-fenced grant, which if unspent is required to be carried forward in a specific reserve. The in-year forecast for Public Health is an under-spend of £0.17 million due to the delay in the development of a new service within healthy lifestyles and staff vacancies. The under-spend will be transferred to the Public Health reserve at year end.

16. Supporting People is reporting a breakeven position but this is based on the assumption that £0.16m of previous year MTC2 savings linked to Mental Health services will be covered by in-year savings.

Children & Families

17. The current forecast of the year end revenue position as at August 2018 for non-DSG funded services is an over-spend of £6.32 million (5.95% of budget). The gross over-spend is £8.92 million, which is reduced to £6.32 million by using the £2.6 million one-off income from the business rates retention pilot. The increase in the over-spend of £2.78 million is due to pressures on the external placement budget and the cost of agency safeguarding staff covering vacancies.

18. At the end of August 2018 children in care numbers had risen to 700 from 549 at the end of March 2016 and although nationally the trend is increasing (circa 3% p.a.) other factors will include the improvement in social work practice through catching up on drift and delay in casework. The ongoing rise in children coming into care continues to cause significant pressures on children's services and in particular against the external placement budget resulting in the over-spend.

19. As part of the 2018/19 budget, additional investment of £7.6 million was approved for external placements. This investment was based on a maximum number of 280 external placements with a unit cost of £61,600 per annum using an 80:20 fostering to residential weighting. The current forecast over-spend against the external placement budget of £6.23 million (36.1% above budget) is due to a higher number of external placements than anticipated, within which the number of residential placements has increased in both absolute and proportionate terms. Many of the residential placements are required to meet the needs of highly complex children resulting in a current average unit cost of £84,600 per annum. There are currently 299 external placements, of which 68 are residential. The forecast includes contingencies of £3.5 million for new cases in-year to allow for additional placements to replace existing care commitments or allow for high number of placements.

20. In addition to this young peoples support are forecasting a £0.67 million over-spend due to a number of complex cases and the additional cost of agency staff covering vacancies. The in-house fostering service is also forecasting to over-spend by £0.27 million due to staffing costs.

21. The Director of Children's Service's is leading a review of all high cost placements on a regular basis as part of the wider improvement work on permanence planning. The aim is to reduce the cost of external placements where appropriate, given the higher unit costs outlined above, ensure decisions around placement change and permanence are executed in timely child centred manner, and ultimately bring down the forecast over-spend. It is estimated that

these reviews will result in approximately £1 million of cost avoidance in 2018/19, which has been built into the forecast. Improving social care practice to divert children from care at an earlier point and achieve permanence at the earliest opportunity should reduce costs further in the longer term.

22. Safeguarding staffing budgets have received £4.01 million of investment in 2018/19 to reduce caseloads and improve practice within teams. Recruitment of social workers especially experienced staff continues to be a challenge. Agency staff have continued to cover staff vacancies or where caseloads remain high, resulting in a forecast overspend of £1.78 million. A higher level of activity is also causing an over-spend of £0.25 million in section 17 and discretionary payments for foster carers. New procedures have been put in place to review all significant payments and ensure consistency across teams. Additionally, a resource panel will be put in place to gate-keep significant section 17 expenditure.

23. Despite the investment made by the council, the issue of recruitment and retention of social workers has continued to be a challenge. To address this the Chief Executive, supported by the Director of Children's Services and Support Services has made a delegated decision to make a number of changes to social work pay scales and allowances in year, making Gloucestershire more competitive with neighbouring authorities. One-off proposals for allowances and over recruitment of newly qualified social workers, estimated at £1.11 million for 2018/19 will be funded from IRIS and Vulnerable People's reserves. The continuation of these proposals beyond March 2019 will be picked up as part of the 2019/20 MTFS discussions. The release of the IRIS reserve is following the decision to review the project in light of the market sufficiency statement that is currently being developed. Some additional permanent changes to pay scales and additional posts have been subject to a decision by the Director of Children's Services and are being funded through the budget held for agency staff on the basis that this budget should see savings as permanent staff are recruited and retained; estimated cost of £0.38 million in year.

24. There are a couple of offsetting variances which include adoption, child arrangement and special guardianship orders which are forecast to under-spend by £0.30 million due to lower than expected number of allowances and orders being made. Also, services for children with disabilities are forecast to under-spend by £0.20 million due to lower costs in the residential unit and staff vacancies in the field work teams.

Dedicated Schools Grant (DSG) position

25. Dedicated Schools Grant (DSG) funded services are forecast to be over-spent by £3.24 million in 2018/19. At the start of the year it was anticipated that balances carried forward from 2017/18 would be able to cover in-year demand pressures but the reported over-spend of £3.24 million exceeds the £2.4 million

of uncommitted DSG balances brought forward resulting in a net over-spend of £0.84 million against the ring-fenced grant. As reported last year the cost pressures are in the High Needs Block with over-spends against Independent Special Schools (£0.65 million), special school places (£0.62 million), top ups for alternative provision services (£0.49 million) and mainstream primary schools (£1.08 million), all caused by increases to activity. The outturn report for 2017/18 identified an on-going cost pressure of £0.5 million in the High Needs Programme at the start of the year and balances are being used to fund this pressure.

26. The council's High Needs Programme is focussing on addressing this financial pressure. Whilst it was planned that balances brought forward should cover the pressure in year, this is no longer the case. Changes to funding arrangements are currently being discussed with the Schools Forum to bring the DSG back into balance in future years. There is a risk that any potential over-spend in future years which could not be addressed through the DSG ring-fenced grant may result in a GCC funding commitment. This reflects an emerging national picture, around which lobbying continues for additional funding and flexibility to move funding between DSG blocks.

Communities & Infrastructure

27. Communities and Infrastructure current forecast is a £0.701 million overspend (0.9% of the budget).

28. Highways Commissioning are reporting an underlying £1.2 million overspend at this stage in the year. The anticipated overspend is due to additional pothole repair works to recover the network following the severe winter, as well as the revised contract arrangements with Amey during the last year of the contract. Although there are some anticipated underspends on capital works during the last year of the contract, additional revenue costs are anticipated with demobilisation of the Amey contract and pre-mobilisation of the new highways contractor. Some of these costs have been mitigated by the transfer of £0.500 million from the technical and corporate budgets due to positive experience on the insurance claims handling within highways, reducing the forecast over spend down to £0.700 million.

29. The Integrated Transport budget is reporting a £0.060 million overspend position due to long term bus contracts being awarded which include inflationary corrections in the new tender prices. Further pressure on transport budgets can be expected as more bus contracts expire this year. We are also closely monitoring the impact of fuel price inflation being higher than expected and the potential impact of legislative changes impacting community transport.

30. Registrar's are reporting an over recovery of £0.120 million of income based on current estimates.

31. Strategic Infrastructure are forecasting a £0.061 million overspend, the majority of this (£0.032 million) is due to an increased staff resource in Transport Planning required to manage the additional workload associated with emerging major transport schemes such as the west Cheltenham Cyber Business Park and M5 J10 and £0.014 million for additional scanning costs due to the office move of the Heritage function.

32. The Fire and Rescue Service, Waste, Libraries, Trading Standards, Coroners and Customer Services are all reporting breakeven positions at year end.

33. Cabinet is requested to note the recommendation to Council regarding the funding of the M5 Junction 10 works which are included in the Cheltenham Cyber Business Park – Transport Mitigation and M5 Junction 10 Business Case Development report elsewhere on this agenda.

Business Support Services

34. The forecast outturn for Business Support Services is a balanced position.

35. Strategy & Challenge are forecasting a balanced position, which takes into account the risks around income targets which are being actively managed. Extraordinary legal child protection cases will continue to be funded corporately.

Technical and Cross Cutting

36. The forecast outturn position for Technical and Corporate budgets is a £4.3 million underspend (9.3% of budget), the main reasons are:-

37. Positive interest rate credits on balances are forecasting to achieve an over recovery of income of £2.5 million above budget reflecting better diversification of investments and longer term deposits and additional income following the Bank of England base rate change.

38. The 2018/19 budget included an MtC2 savings contingency; this was approved by Council to reflect the high risk nature of some of the savings programmes in demand led areas in 2018/19. Given the difficulties in achieving savings across some services as outlined in this report the full £1.6 million contingency has been released to support the overall budget.

39. There has been a re-tendering of the insurance contracts, which has resulted in a favourable forecast underspend of £0.182 million on the corporate insurance

budget. The claims experience on highways has also continued to be positive and is forecasting a £0.500 million under spend which it is proposed be transferred to Highways.

Gloucestershire Business Rates Pilot 2018/19

40. The financial impact of the Council being part of a Business Rate Retention (BRR) pilot could not be definitively estimated when the budget was approved in February 2018 so the potential impact was excluded from the base budget, although identified for ear marking at £4.6 million. The completion of the National Non Domestic Rate (NNDR) income returns by the district councils and the receipt of Section 31 grant notifications from Central Government has given more certainty. Therefore the July Cabinet approved an increase of the overall budget by £4.6 million. This additional budget will be allocated during the year by Cabinet in line with the priorities approved by Full Council in February 2018.

41. The first allocations of £2.6 million to offset demand pressures in Children and Families and £0.530 million to Highways Local, reflecting these earmarked priorities agreed by Full Council in February 2018, were approved at the July 2018 Cabinet. This left £1.470 million of the additional BRR pilot income remaining unallocated; £1 million for Adult Social Care and £0.47 million for Electric Vehicle Infrastructure as per Council in February 2018.

42. Approval is sought to allocate the £1 million earmarked for Adult Social Care to fund the one off costs associated with the Adult Social Care Workforce Plan and support any demand pressures which emerge through winter planning and winter itself. Approval is also sought to allocate the remaining £0.470 million to the Communities and Infrastructure budget to fund investment in electric vehicle infrastructure.

43. The September GEGJC Business Rates Pool paper shows that the latest forecast estimates the level of Pilot benefit could be as high as £14.4 million, which would mean a £7.2 million benefit to GCC compared to the original £4.6 million. The final amount of BRR Pilot benefit may reduce over the course of the financial year because any prior-year adjustments or rates appeals will reduce the amount of income retained. Given the risks the strong advice from the Pool Management Team (the CFOs of the Gloucestershire Councils) is that resource allocation decisions about any additional income should only be made following the 2018/19 outturn position (April 2019) once there is absolute clarity on both the amount of business rates retained and the distribution.

B. Delivery of Meeting the Challenge 3 Savings Programme

44. At the end of Quarter 1 of the 2018/19 Meeting the Challenge 3 (MTC3) savings plan, we are reporting £5.8 million delivered against a 2018/19 target of £18.686 million. This represents 31% of the annual target now achieved, but is bolstered by the early delivery of savings from 'Technical and Corporate' budgets.

45. The overall savings programme is on track and we are currently forecasting that all savings will be achieved in full by the end of the financial year. However, given that we are early in the financial year, and our reliance on a single area (Adults) to achieve the majority of remaining savings, this position may change as the year progresses.

46. Additionally, there is £3.305 million of outstanding savings to be achieved from MTC2, of which, £1.283 million is on track to be achieved by the end of 18/19. Plans for the remaining savings are currently being reviewed, and mitigating plans will be in place by October.

Programme/Project	**18/19 savings target**	**Achieved to date**	**Forecast 18/19** (incl achieved)	**At Risk**	**Notes**
Outstanding MTC2 savings		**£,000**	**£,000**	**£,000**	
Children and Families	150	0	0	150	Plans to address this to be in place by Sept 2018
Public Health	2,496	0	1,059	1,437	At risk for 18/19, but will be contained by budget position and planned to be delivered in full.
Education	93	0	93	0	
ICT	131	0	131	0	
Supporting People	435	0	0	435	Plans to address this to be in place by Sept 2018
Total MTC2	3,305	0	1,283	2,022	
MTC3					
Education	350	50	350	0	
Adults Single Programme	11,561	1,202	11,561	0	
Public Health	641	0	641	0	
Supporting People	541	0	541	0	
Parking	50	0	50	0	
Integrated Transport	50	0	50	0	
Libraries	50	50	50	0	
Waste	167	28	167	0	
Infrastructure Planning	50	50	50	0	
Fire & Rescue Service	160	0	160	0	
Support services	396	0	396	0	
Commercial approach	250	0	250	0	
Strategy & Challenge	20	20	20	0	
Corp & Tech	4,400	4,400	4,400	0	
Total MTC3	18,686	5,800	18,686	0	
Total MTC2 + MTC3	21,991	5,800	19,969	2,022	

C. Capital Expenditure

Current Spend 2018/19

47. The capital budget for 2018/19 is £103.731 million. Actual spend against the capital programme as at end July 2018 is £21.097 million.

Budget and Capital Forecast Outturn Position 2018/19

48. The forecast outturn position for 2018/19 against budgets is £103.483 million, showing a forecast slippage of £0.248 million.

CAPITAL EXPENDITURE 2018/19					
Service Area	Reprofiled Budget 2018/19	Current Year Spend 2018/19	% Current Year Spend against Reprofiled Budget	Forecast Outturn 2018/19	Forecast Year-end Variance
	£000	£000	%	£000	£000
Capital Receipts Works Before Sale	0	0		0	0
Adults	7,777	2,798	36	7,777	0
Children & Families	22,934	6,975	30	22,934	0
Communities					
Highways	50,861	7,840	15	50,861	0
Strategic Infrastructure	3,317	905	27	3,374	57
Waste Disposal	663	130	20	663	0
Libraries	1,887	334	18	1,857	-30
Community Safety	1,816	107	6	1,551	-265
Business Support					
AMPS	9,121	1,507	17	9,121	0
ICT projects	3,117	131	4	3,117	0
Business Service Centre	771	0	0	771	0
Archives & Information Management	1,161	367	32	1,161	0
Customer	304	2	1	295	-10
Total	**103,731**	**21,097**	**20**	**103,483**	**-248**

Strategic Infrastructure Capital Programme

49. Infrastructure schemes are forecast to spend £3.374 million in 2018/19, against a current budget of £3.317 million, giving a forecast overspend of £0.057 million. The Priors/Oakley flood alleviation scheme is forecast to overspend by £0.150 million but this is partially offset by slippage on two other flood alleviation schemes. The reasons for the Priors/Oakley overspend are additional archaeology costs, landowner compensation and delays due to winter working, all of which have increased the overall scheme costs considerably. It is

recommended that Cabinet approves a transfer of £0.150 million from the Highways Capital Programme to fund these additional costs.

Libraries Capital Programme

50. Libraries schemes are forecast to spend £1.857 million in 2018/19, against a current budget of £1.887 million, forecasting slippage of £0.030 million. This slippage is a result of three schemes which are unable to progress until 2019/20.

Community Safety Capital Programme

51. Fire and Rescue schemes are forecast to spend £1.551 million in 2018/19, against a current budget of £1.816 million, forecasting slippage of £0.265 million. This slippage relates to two projects. Firstly, the Mobile Data Terminals scheme where slippage of £0.050 million is forecast because the ability of suppliers to deliver and install MDTs within the original timescales is in question. Secondly, the Aerial Ladder Platform scheme has been delayed in order to allow the best replacement vehicle for the current appliance to be identified, this work will be completed by the end of the year and the project is now forecast to complete in 2019/20.

Customer Projects Capital Programme

52. Customer schemes are forecast to spend £0.294 million in 2018/19, against a current budget of £0.304 million, forecasting slippage of £0.010 million. This slippage is a result of the case management system planned for the complaints service which will not be progressed until suitable software has been identified that will adequately meet the needs of the team. At present the systems identified fall short of our needs.

All other Capital Programmes

53. All other programmes are forecast to spend in line with the current budget for the year.

Changes to the Capital Programme in 2018/19 and future years

Highways

54. It is proposed that Cabinet support an increase of £0.013 million in the Highways capital budget, funded by the following additional resources;
    - £0.003 million of other external contributions secured towards one public transport and one safety scheme.
    - £0.010 million of Highways Locals contributions identified to part fund one public transport and one safety scheme.

The additional funding totals £0.013 million, all of which is anticipated to be spent this financial year.

Overall Change to Capital Programme

55. As a result of the above changes, the overall capital programme will increase by £0.013 million.

D. Gloucestershire Business Rate Retention Pilot 2019/20

56. The Ministry for Housing Communities and Local Government (MHCLG) is committed to continuing to give local authorities greater control over the money they raise locally. In December 2017 MHCLG announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% in April 2020.

57. In order to test the 75% business rates retention system and to aid understanding of how local authorities transition into a reformed business rates retention system in April 2020 MHCLG is inviting local authorities in England to apply to become 75% business rates retention pilots in 2019/20. Pilot authorities will be expected to focus on the learning necessary for transition to the proposed new scheme in 2020/21.

58. The following should be noted:

- Business rate pilots in 2019/20 will retain 75% of local rates – in line with the current proposal to move to a nationwide 75% scheme in 2020/21. Councillors will recall that the current Business Rate Pilot is based on 100% Business Rate retention. This change reflects the change in the proposed scheme that will be applicable from 2020/21.

- Not all authorities with 100% pilots in 2018/19 will necessarily continue them into 2019/20. All the pilots who were successful in 2018/19, including Gloucestershire, will have to re-apply for 2019/20.

- MHCLG is keen to see authorities forming pools as part of the pilot programme.

- The safety net will be set at 95% of Baseline Funding, however current guidance is that there will not be a 'no detriment clause' – which is different from the current pilot. This is because MHCLG wishes the pilots to test the pooled authorities' approach to risk. MHCLG state that applying a 'no detriment' clause to the pilots would not be reflective of the reformed business rates retention system that the government aims to introduce in 2020/21.
- Deadline is tight – initial bids had to be submitted by 25th September 2018.

59. A proposal from Gloucestershire to become a pilot for 2019/20 fits the criteria that MHCLG are looking for in terms of a rural two-tier system of local government and having previously been a Business Rates Pool.

60. There are some significant risks associated with becoming a pilot at this time due to the existing high levels of appeals within the business rates system dating back to 2010 as well as the potential for appeals on the new 2017 list to be higher than the Council (and indeed government) have anticipated.

61. In addition NHS Trusts are taking legal action against billing authorities regarding their application for mandatory relief from business rates. If mandatory relief is applied to the NHS Trusts this would result in an 80% ongoing reduction in their business rates and they would also be due a backdated refund for the previous 6 years.

62. A paper was presented to Gloucestershire Economic Joint Growth Committee on 4th September 2018 – they were supportive of the pilot bid based on the current distribution of financial benefits. This decision was subject to confirmation of each Council's Section 151 officers / Directors of Finance regarding the financial benefits and risks.

63. The Directors of Finance in Gloucestershire, in consultation with external consultants, have undertaken detailed financial modelling of the risk/reward of a 75% pilot. Based on this detailed work the Directors of Finance group confirmed that a bid should be submitted, which was achieved by the deadline of 25th September 2018.

64. The financial modelling estimates that if successful the pilot would generate circa £8 million additional funding for Gloucestershire in 2019/20 – 50% of which would be allocated to GCC. This amount may be significantly reduced if the level of appeals is higher than anticipated and if the NHS Trust appeal is successful. This worse case scenario, which is seen as highly unlikely, could potentially reduce the £8 million of additional funding to a deficit of £1.4 million. Given this risk Finance Directors supported the bid on the basis that additional funding from the current BRR pilot gain in 2018/19 is used to cover this potential deficit. The more likely outcome is additional income for Gloucestershire through pilot gain, which would be used to support achieving better outcomes for our residents.

65. The bidding process is competitive and MHCLG have advised that they will notify successful bid areas before or alongside the publication of the provisional Local Government Finance Settlement.

66. It is recommended that Cabinet approve the pilot in the event the bid is successful.