Agenda Item 12.2

For publication

Bedford Borough Council – Full Council

23 March 2016

Report of the Executive

Subject: **MEDIUM TERM FINANCIAL STRATEGY**

1. Executive Summary

To advise the Council of the outcome of the Executive's consideration of the Medium Term Financial Strategy (MTFS) which sets out the planning and management of the Council's financial resources over the medium term. Full Council is recommended to approve the Strategy and the revenue budget projections for 2017/2018 to 2019/2020.

2. Recommendation

2.1 That the significant reduction in Government funding that is expected, despite the growing service pressures over the Medium Term Financial Strategy period, be noted.

2.2 That the updated Financial Forecast at Appendix A and the Medium Term Financial Strategy at Appendix B, be approved.

3. Reason for Recommendation

3.1 To consider the factors likely to affect the Council's financial position over the period from 2017/2018 to 2019/2020 and in particular the reduction in Government funding.

3.2 To consider and approve the updated Financial Forecast and the Medium Term Financial Strategy in order to assist in the Council's financial planning.

4. Key Implications

4.1 Legal Issues

There is a statutory requirement, under the Local Government Acts of 1988 and 2003 for the Council to set a balanced budget each year and to maintain adequate reserves. Failure to do so would result in a “Section 114” report by the Council’s designated Section 151 Officer which would lead to intervention action by the Department for Communities & Local Government or, if relevant, the Council’s External Auditors.

The Medium Term Financial Strategy (MTFS) is not the budget forecast but provides the longer term financial planning framework within which the annual budget is developed. By forecasting future levels of resources and spending, the MTFS allows for early identification of actions required to ensure a balanced budget over the medium term.

4.2 Policy Issues

Full Council, as part of its consideration of the Revenue Budget in February each year, must consider whether the budget is affordable in both the short and medium term having regard to the expected available resource, and that ongoing expenditure commitments are covered by sustainable ongoing income sources.

The Council must, as part of its Capital Investment Strategy, have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and a number of indicators are determined to assist in this process. In essence, these indicators relate to Prudence, Affordability and Sustainability in relation to capital investment and, in particular, the impact on the revenue budget of borrowing.

The financial strategy needs to have regard to the “resource envelope” available to the Council. There are three major factors which determine the resource envelope, namely Central Government Grant, Council Tax and Local Business Rates. The Local Government Finance Settlement (LGFS) sets out the amount funded through Revenue Support Grant (RSG). The Government has set out a four year deal for Revenue Support Grant (representing the Spending Review period 2016/2017 to 2019/2020), subject to Council’s signing up to an efficiency plan. This provides for some certainty around this source of income over the medium term.

The second critical factor is the level of Council Tax to be levied and this is a policy decision for the Council to determine each year as part of the overall budget setting process. The Government's assessment of Council's Spending Power now takes account of an Authority's ability to raise Council Tax and makes assumptions on the level of both Council Tax rises, and growth in the Council Tax Base. This demonstrates a policy shift away from the era of the Council Tax freeze grant. In addition the Government introduced an Adult Social Care precept to allow for authorities with adult social care responsibilities to increase Council Tax by 2% year-on-year to fund the increasing demand for social care services experienced by local authorities. For information, the average Council tax for 2016/2017, at Band D equivalent property, is £1,353.43. Each 1% change in Council Tax equates to £739,000 of income (based upon the 2016/2017 estimated Council Tax base).

The Local Government Finance Act 2012 introduced amendments to the Local Government Finance Act 1988 which allow for the local retention of a share of business rate receipts. Under the revised Act the Council retains 49% of the rates yield and will pay 50% to the Government and 1% to the Bedfordshire Fire and Rescue Authority. The Council is required to determine the level of business rates payable based on known and predicted changes in the Council's Business Rate base, taking into account the provision for historic appeals and any national or local rate reliefs awarded which are offset against the Council's share of the yield. There will be a national revaluation of rateable values taking effect from April 2017 and in determining the rates yield the Council will need to make a provision for the effect of the significant volumes of appeals that may be anticipated in respect of the new values. The advent of a new valuation list will, however, mitigate the potential for additional backdated appeals. The November Spending Review confirmed the Government's intention to transfer 100% of business rate yield to Local Authorities, together with the transfer of new responsibilities from 2018/2019. A consultation will be issued during 2016 setting out more detail of the proposal.

Best practice for financial management, as suggested by the CIPFA model on Good Financial Management, indicates that a Council should have a Medium Term Financial Strategy (MTFS) to provide the key overarching financial management document and the Council has adopted this good practice.

There is a requirement to review the MTFS at least twice per year in the Autumn and in Spring. Full Council, at its meeting on 14 October 2015, approved the current MTFS and the range of legislative changes and service issues potentially impacting on the financial projections.

4.3 Resource Implications

The MTFS is the Council's key financial planning document and sets out the Council's strategic approach to the management of its finances and Council Tax levels over the medium term, thereby allowing sufficient lead time to develop services consistent with the forecast resource envelope. The MTFS forecast is up to and including 2019/2020 which is aligned with the Governments Four Year Deal. There are significant changes planned over the period of the review not least a review of Local Government Funding, and 100% localisation of Business Rates, which make forecasting beyond this point extremely difficult.

The MTFS forecast for the period 2017/2018 to 2019/2020, as attached at **Appendix A,** includes the assumptions underpinning the financial projections and overarching plan. The forecast shows the level of savings that need to be achieved to deliver the indicative Council Tax level.

4.4 Risk Implications

There are inherent risks in developing a financial strategy over the medium term, not least due to the uncertainty of funding streams. In order to mitigate this risk, alternative MTFS scenarios have been developed thus highlighting the impact of different assumptions on the Council's medium term financial outlook.

4.5 Environmental Implications

There are no environmental implications arising from this report.

4.6 Equalities Analysis

In preparing this report, due consideration has been given to the Borough Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.

A relevance test for equality has been completed. The equality test determined that the activity has no relevance to Bedford Borough Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed.

5. Details

Background

5.1 The Medium Term Financial Strategy (MTFS) is the Council's overarching Financial Strategy document and gives financial expression to the Council's plans and fiscal challenges over the medium term. It sets out a range of financial scenarios and in so doing sets parameters within which the Council will deliver key public services over the medium term.

5.2 The MTFS comprises two key elements (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of unavoidable spending pressures based on existing levels of service delivery and known policy/legislative changes. Within the current environment of reduced Government funding, taken together with the movement over the planning period of these two elements, represents the financial challenge facing the Council.

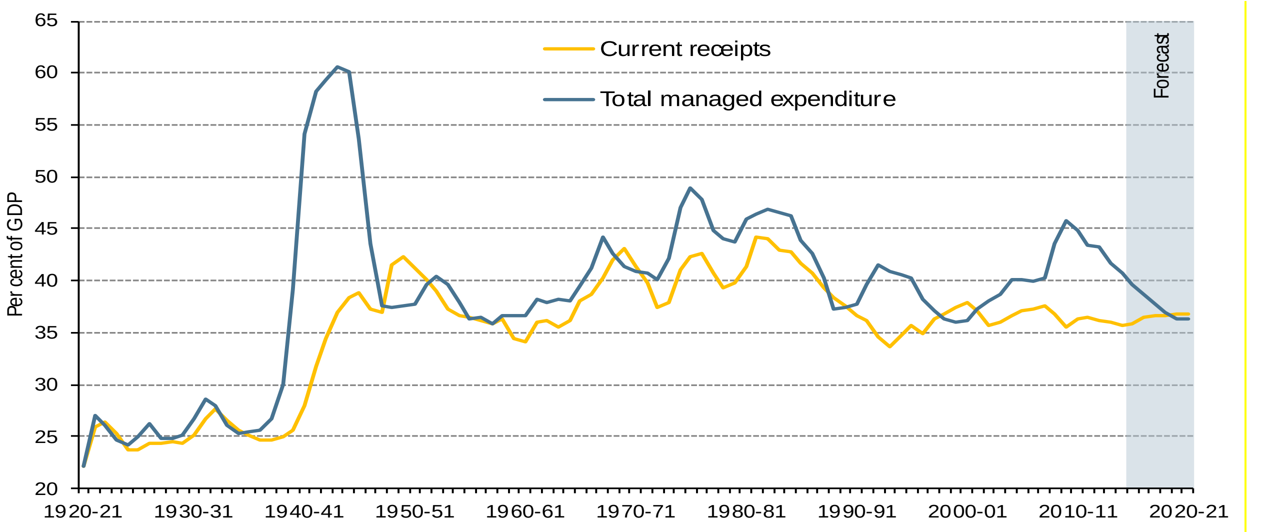
5.3 In order to be able to deliver the Council's aspirations as set out in its Corporate Plan, meet its statutory responsibilities, and at the same time be attentive to the needs of its communities, the Council must take a proactive approach to managing its resources effectively. The MTFS is a key tool for proactive financial management which allows for future projected funding requirements to be identified far enough ahead so to be able to take appropriate action to deal with the funding shortfalls.

5.4 The proposed MTFS document for the period 2017/2018 to 2019/2020 is attached at **Appendix B**. This document sets out the framework within which the financial forecast has been determined; the Strategy has been updated to reflect the revised Corporate Plan and the proposed changes to Local Government Funding discussed in this report.

5.5 The longer term picture of Public Spending beyond 2020 remains unclear, particularly with the proposed changes in relation to whether 2019/2020 will become the "spending norm", proposed consultations on the localisation of 100% Business Rates, and the role of the Local Authority in Education. Therefore at this point extending the forecast further would be highly unreliable. The MTFS will be considered again in September/October 2016, at which point Local Authorities should have had sight of these consultation documents, and have some basis for forecasting future services and their associated funding.

Local Government Prospects

5.6 The Spending Review 2015 in November updated the fiscal challenge over the medium term (until 2019/2020). The title of the Spending Review is "A country that lives within its means" and sets out the ambition to eradicate the budget deficit over the Spending Review period. The chart below is included within Spending Review 2015 and sets out the trajectory of both public sector receipts and spending. It is evident from the chart that public spending is forecast to be lower as a share of Gross Domestic Product (GDP) than has historically been the case and that given the commitments to increase/protect spending on Health, Defence, Overseas Aid and Schools in particular, this implies that the resources available for Local Government will be limited over the medium term and more than likely beyond this.



Source: Bank of England, ONS, OBR

5.7 In setting out the parameters for Spending Review 2015, HM Treasury required "Unprotected" Departments to plan for a 25% and 40% Real Terms reduction over the Spending Review period. Local Government is an "Unprotected" Department and as such the Department for Communities & Local Government (CLG) developed its submission to Spending Review 2015 on this basis. Reductions in the amounts allocated to Local Government will manifest itself through reduced Revenue Support Grant. The local Government Finance system is underpinned by three key elements; (i) Revenue Support Grant, (ii) Council Tax and (iii) Business Rates retained. It is clear that due to the ongoing accelerated reductions in funding that the Authority receives through Revenue Support Grant the importance of the other two sources of funding becomes more critical. This is due to the fact that they will constitute a greater proportion of the overall funding available to the Authority.

5.8 The Spending Review and Autumn Statement 2015 reaffirmed the Government's commitment to control spending, eliminate the public spending deficit and allow public spending to return to surplus by 2019/2020. The review set out how the Government would deliver the savings required to achieve this objective. To achieve the surplus in 2019/2020, the Government announced its intention to implement £37 billion of cost reduction measures across the spending review period. These included the measures announced in the Emergency Budget of July 2015 that sought to achieve £12 billion of savings through welfare reform and £5 billion from tackling tax avoidance, evasions and non-compliance.

5.9 The Provisional Settlement announced on the 17 December 2015 that set out expectations over the funding available to local authorities over the remaining life of the current Parliament (2016/2017 to 2019/2020). The Final Local Government Settlement was announced on 8th February 2016. This also confirmed the Settlement Funding Assessment (SFA) and Revenue Support Grant (RSG) allocation for 2016/2017 as set out in the Provisional Settlement. The allocations for 2017/2018, 2017/2018 and 2019/2020 remain indicative but reflect the previously announced levels.

Revenue Support Grant

5.10 The Settlement set out the local authorities' Baseline Funding Level and Revenue Support Grant (RSG) across the medium term. These two elements constitute the Settlement Funding Assessment (SFA). Overall the RSG allocation allocated to all local authorities was cut by 24.5% compared to 2015/2016 with further annual reductions of 30%, 28%, and 36% across the remaining years of the Spending Review period.

5.11 The methodology for distributing the overall RSG/SFA allocations to individual authorities, when compared to previous financial years, was amended within the Settlement. The revisions to the funding mechanism were undertaken without authorities being consulted or informed in advance of the announcement. The key change was to introduce an authority's ability to raise Council Tax as a factor in determining RSG allocations. This in effect moved funding typically from the South of the country to the North. This unexpected change resulted in a number of authorities making representations to CLG, in particular from counties; that the late announcement did not provide sufficient time for authorities to prepare for such a significant change in funding distribution.

5.12 These representations resulted in the announcement of a Transitional Fund for 2016/2017 and 2017/2018 of £150 million to smooth out the reductions for those Authorities with the hardest hit in the initial years, to give authorities time to plan the reductions required. For the Council this equates to £0.7 million in each year; for 2017/2018 this has been incorporated within the total resources available to support spending, in 2016/2017 this will be used to fund transitional activity.

5.13 The Final Settlement also included an offer to provide 'guaranteed budget' to every council that signs up to an Efficiency Plan across the life of the Parliament through the establishment of the four year deal. Provisional allocations for the Settlement Funding Assessments were published but will be subject to changes in Retail Price Index (RPI) and the business rates multiplier. The offer is also subject to change for exceptional circumstances and subject to the normal statutory consultation process. The deadline for signing up to the deal is 14 October 2016 and further details should emerge before this date.

Council Tax Referendum Principles

5.14 The Final Settlement confirmed the 2.0% council tax referendum principle would apply for 2016/2017. The offer of Council Tax Freeze Grants has now ceased and these sums have been transferred for distribution through the Settlement Funding Assessment. The Core Spending data that was issued within the Final Settlement is based on the assumption that local authorities will increase Council Tax levels in line with Consumer Price Index (CPI) inflation across the Spending Review period plus utilise the adult social care precept capability as set out in paragraph 5.15 below.

Adult Social Care Precept

5.15 All authorities with adult social care responsibilities have been provided with the option to increase council tax by an additional 2% each year for four years from 2016/2017 to help fund adult social care. In practice, those authorities, including this Council, will be subject to a Council Tax referendum principle 2% higher than the principle that would otherwise apply. In order to qualify for this dispensation the Council must commit to spending the additional income on adult social care.

Better Care Fund

5.16 The Spending Review announced that £1.5 billion would be added to a new ring-fenced Better Care Fund progressively from 2017/2018 reaching £1.5 billion in 2019/2020. In 2017/2108 an additional £105 million will be made available to local authorities for the Better Care Fund, increasing to £825 million in 2018/2019 and £1.5 billion in 2019/2020. The £1.5 billion consists of £700m in new funding and £800m from savings in the New Homes Bonus programme for social care (as set out in paragraph 5.18 below).

Public Health Grant

5.17 The Public Health Grant will continue as a separate ring-fenced grant in 2016/2017 and 2017/2018 after which the Government has indicated public health funding will be included within the Business Rates Retention Scheme. The grant will be cut by 2.5% year-on-year.

New Homes Bonus

5.18 The Settlement included the Government's intention to retain the Scheme indefinitely but revise the New Homes Bonus reward mechanism. A consultation on the New Homes Bonus was published that sets out proposals to achieve savings of £800 million by 2019/2020. This funding will then be re-directed to the Better Care Fund. The reforms included a number of proposals including:

- Withholding the Bonus from areas where an authority does not have a Local Plan in place;
- Abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal;
- Adjusting the Bonus to reflect estimates of “deadweight”; and
- A reduction in the number of years for which the Bonus is paid from the current six years to four years.

Capitalisation Flexibilities

5.19 As announced as part of the Spending Review, CLG published draft guidance on the framework for flexible use of capital receipts. Local authorities will be able to use 100% of receipts from selling capital assets to fund ‘the revenue costs of reform projects.’ The final guidance that would confirm the criteria for applying this flexibility was due to be published in late February 2016 but it is expected that the reform projects should be included in a published strategy.

100% Business Rates Retention

5.20 The Secretary of State confirmed the intention that by 2020 local government will be 100% funded by Council Tax, business rates and other local revenues. The House of Commons Communities and Local Government Committee has commenced an inquiry into the Government’s proposals for 100% business rates retention. This will primarily focus on examining what responsibilities should be devolved to local authorities in return for the increased funding plus the measures that could be introduced to protect authorities with less ability to generate business rates income.

Needs Assessment Formula

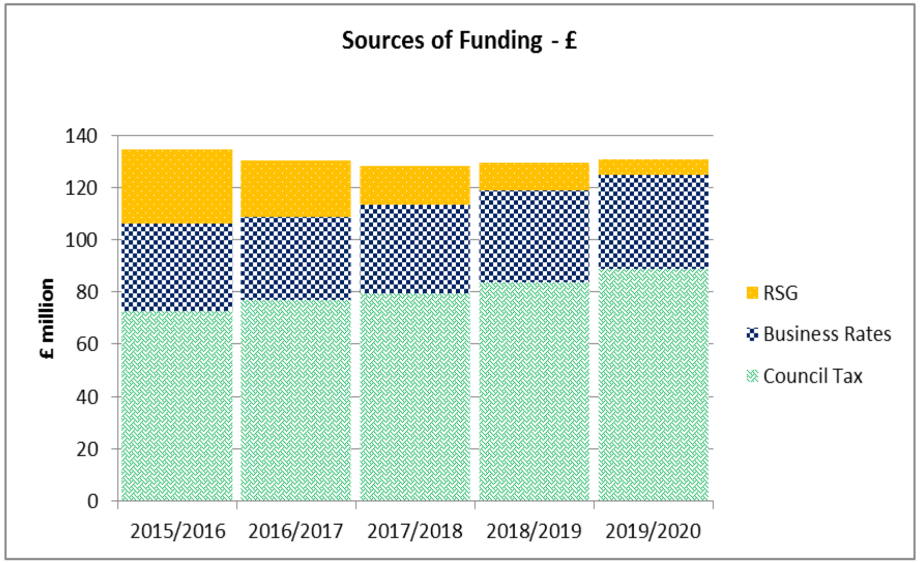
5.21 The Secretary of State announced the intention to undertake a fundamental review of the needs assessment formula that would revisit current and future relative needs. It is expected that this would be incorporated within the framework for the implementation of 100% business rates retention.

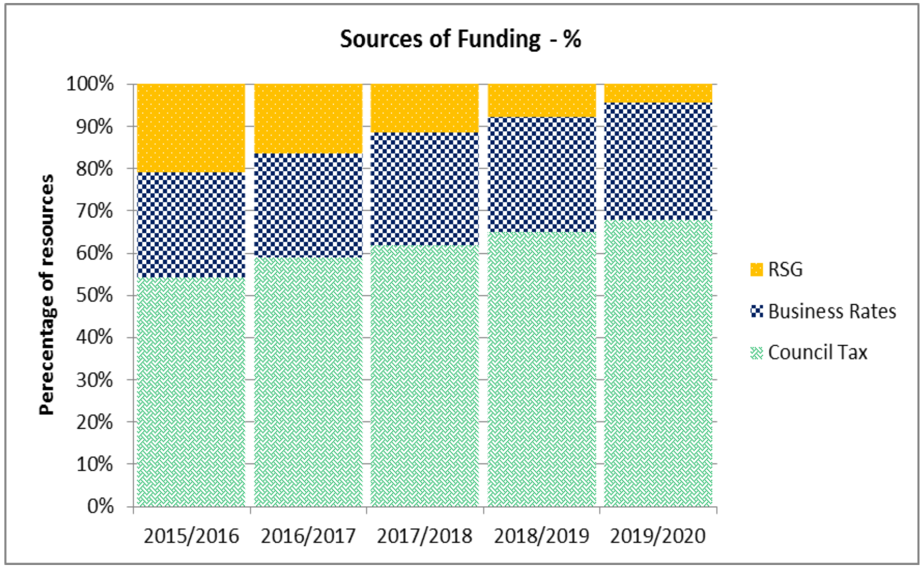
Medium Term Financial Planning

5.22 The MTFS forecast, at **Appendix A**, outlines the current financial position, economic forecasts, risks and assumptions relating to financial planning. It gives summary details of the financial forecasts for revenue budgets and summarises the financial strategy and key considerations of the Authority at this time. The headline figures for the Baseline Model are set out in the table overleaf.

	2017/2018 £million	2018/2019 £million	2019/2020 £million
Council Tax	79.2	83.8	88.6
Business Rates	34.2	35.2	36.3
Revenue Support Grant	14.6	10.2	5.8
Total Resource	128.0	129.2	130.7
Net Spending (Budget Requirement)	137.0	146.5	151.5
Savings in Year	9.0	17.3	20.8

5.23 The charts overleaf set out how the Council's Budget Requirement is most likely to be funded over the medium term in both monetary and percentage terms. The Council's reliance on Council Tax and Business Rates is evident with Revenue Support Grant reducing to £5.8 million in 2019/2020.





5.24 A number of Resource scenarios have been developed incorporating different assumptions around both Council Tax and Business Rates. Given the reliance on both Council Tax and Business Rates moving forward developing different scenarios provides for sensitivity analysis and as such highlights the impact that different assumptions have on the MTFS forecast and the associated risk that the Authority must manage.

5.25 The following are the key assumptions included in the MTFS forecast (Baseline Model):

Council Tax

(a) The Tax base will increase by 2.0% from 2017/2018 onwards in line with the impact of the Council Tax Reduction Scheme, growth indications and current collection rates. This is a prudent estimate based on experience over the last few years. Increasing the tax base will reduce the in-year surplus on the collection fund which has been experienced in the last few years.

(b) The MTFS baseline model includes an increase in Council Tax of 1.75% in 2017/2018 and in each subsequent year. The model matches the assumption in the Government's Assessment of Spending Power. The increase is for planning purposes only, and no decision has been made on the actual level of Council Tax increases in the medium term.

Business Rates

(c) The Business Rates income forecast has been reduced to reflect the uncertainty and volatility of Business Rates. At the end of financial year 2015/2016 there was a significant increase in the number of appeals against rateable values which needed to be provided for in the Council's Statement of Accounts. This increase in appeals resulted in a £1.0 million deficit on the Collection Fund (the Council's share) which is a first call on the sum raised in setting the 2016/2017 revenue budget. The vast majority of these appeals remain outstanding.

(d) The rateable values of non-domestic properties are subject to periodic revaluation by the Valuation Office Agency (VOA), normally every five years. The revaluation originally planned for April 2010 was postponed by the Government for 2 years and the revaluation will now take effect from April 2017 with valuations based on property rent values as at 1 April 2015. The VOA is currently in the process of completing the revaluation and is expected to publish a draft valuation list in September 2016.

(e) The Government normally resets the rate in the pound at the time of a revaluation to ensure that at national level the yield from non-domestic rates remains at a comparable level and is not distorted by the effect of changes in property values. The impact of a revaluation for each local authority will depend on how property rental values in its area have changed in comparison to the national average. There is normally a general right of appeal for ratepayers following a revaluation and it is considered reasonable to anticipate an initial uplift in yield followed by erosion due to successful appeals.

(f) In estimating rates yield for the purpose of the medium term financial strategy, no growth has been included in the baseline model. Alternative models reflect the impact of the Economic Growth Plan, a report on which was also considered by the Executive at its meeting held on 9 March 2016. The following key assumptions have also been made:

- The current provision for existing appeals is sufficient;
- The are no further significant changes to valuation schemes resulting from Tribunal or Court decisions;
- There are no significant variations to the levels of rate reliefs;
- There will be no significant reduction in rateable value due to disasters;
- Erosion of new rateable values and yield due to appeals against new valuations will be in the region of 5% over the life of the valuation list;
- There will be a national equalisation process so that local authorities do not gain or lose disproportionately due to the revaluation;
- Any transitional phasing arrangements will be outside the scope of the rates retention scheme;
- All Section 31 grants, including those for small business rate relief and the previous restriction in the annual inflationary increase, will continue and will be increased annually in-line with inflation (if the grants are discontinued it is anticipated there will be a compensating increase in the yield).

<u>Revenue Support Grant</u>

(g) The Revenue Support Grant has been updated to reflect the four year deal as set out in the Final Settlement, discussed in paragraph 5.13 above.

<u>Base Budget Changes</u>

(h) The revenue impact of the latest approved Capital Investment Programme needs and priorities has been included in the Projections. Interest rate forecasts have been assumed to continue at low levels for the duration of the MTFS. Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with reserves and provisions held by the Council.

(i) Incremental cost in relation to the Pension Deficit in line with the agreement following the most recent valuation of Pension Fund assets and liabilities. The next valuation will take effect from 2017/2018 and it has been assumed that there will be an ongoing incremental cost.

(j) It has been assumed that the remaining £1 million budgeted revenue contribution to capital will be withdrawn. There is no expenditure in the Capital Programme which is supported by this contribution from 2017/2018.

Legislative/Funding Changes

(k) An estimate of the impact of the Welfare Benefit Reforms and, in particular, the impact of the Housing and Council Tax Benefit Grant has been included.

(l) A grant for the former Independent Living Fund recipients is being consulted on by the Department of Communities & Local Government. Indicative figures for 2017/2018 and 2018/2019 are included in this Consultation Document which have been included in the forecast.

Demand/Demographics

(m) Demographics for the provision of adults social care to reflect forecast changes in increased client numbers to reflect the growing demand for care packages, including the increasing complexity of care packages as clients choose to stay at home, and for direct payments enabling clients to be in control of their own care choices. This also includes those transitioning from children to adults.

Service Pressures

(n) The MTFS provides for an additional refuse and recycling collection round to be added to the current service. The Council is anticipating housing growth of circa 900 to 1000 properties per annum over the four years. It is expected that the current rounds will become saturated and a further round will need to be implemented in 2017/2018.

(o) Recycling costs have increased, and it is likely that the income achieved under the current contract will not be sustained when the contract is renegotiated due to the collapse in the recycling market. An additional cost pressure has therefore been included in the MTFS from 2017/2018 onwards.

(p) Provision has been made for the reduction in income arising from mineral extraction as sites are depleted.

Council Wide Pressures

(q) The Spending Review and Autumn Statement 2015 stated that "Savings of around £600 million will be made on the ESG, including phasing out the additional funding schools receive through the ESG". ESG has been included in the MTFS forecast on an equalised reducing balance basis so that only the funding for retained duties remains by 2019/2020. The profile of the reduction in funding across the medium term is not yet known. This is likely to see a reduction in funding from £1.4 million in 2015/2016 to £0.6 million in 2019/2020.

(r) A small allowance has been made for inflation on the Council's key contracts, and fees and charges. Allowance for a pay award of 1% and pay increments over the period has also been included. Until finalised, provision for these future costs are not included in service estimates.

(s) The Summer Budget (July 2015) introduced the new National Living Wage (NLW) for employees aged 25 and above with an initial start date of April 2016 with the aim of the NLW reaching 60% of median UK earnings by 2020. The most significant impact for the Council will be through contracted services where there is currently a greater reliance on a minimum wage workforce, in particular social care, where there will be an upward pressure on contract inflation.

(t) In the Summer Budget, the Government announced the introduction of a levy on large employers to help fund 3 million new, high quality apprenticeships during this Parliament to support the development of the skills base and help to drive productivity over the longer-term. The exact details of how the levy will be calculated have not yet been confirmed, however it will be a PAYE based return, i.e. based upon gross pay. An estimate has been included in the Plan of £0.45 million in 2017/2018.

(u) The MTFS includes the potential income generated through New Homes Bonus which is based on an increase in Council's taxbase year on year, recognising that an increasing taxbase will also increase the need to spend over time. The proposed changes to the New Homes Bonus are discussed in paragraph 5.18 above. The MTFS reflects the Governments preferred option in the Consultation.

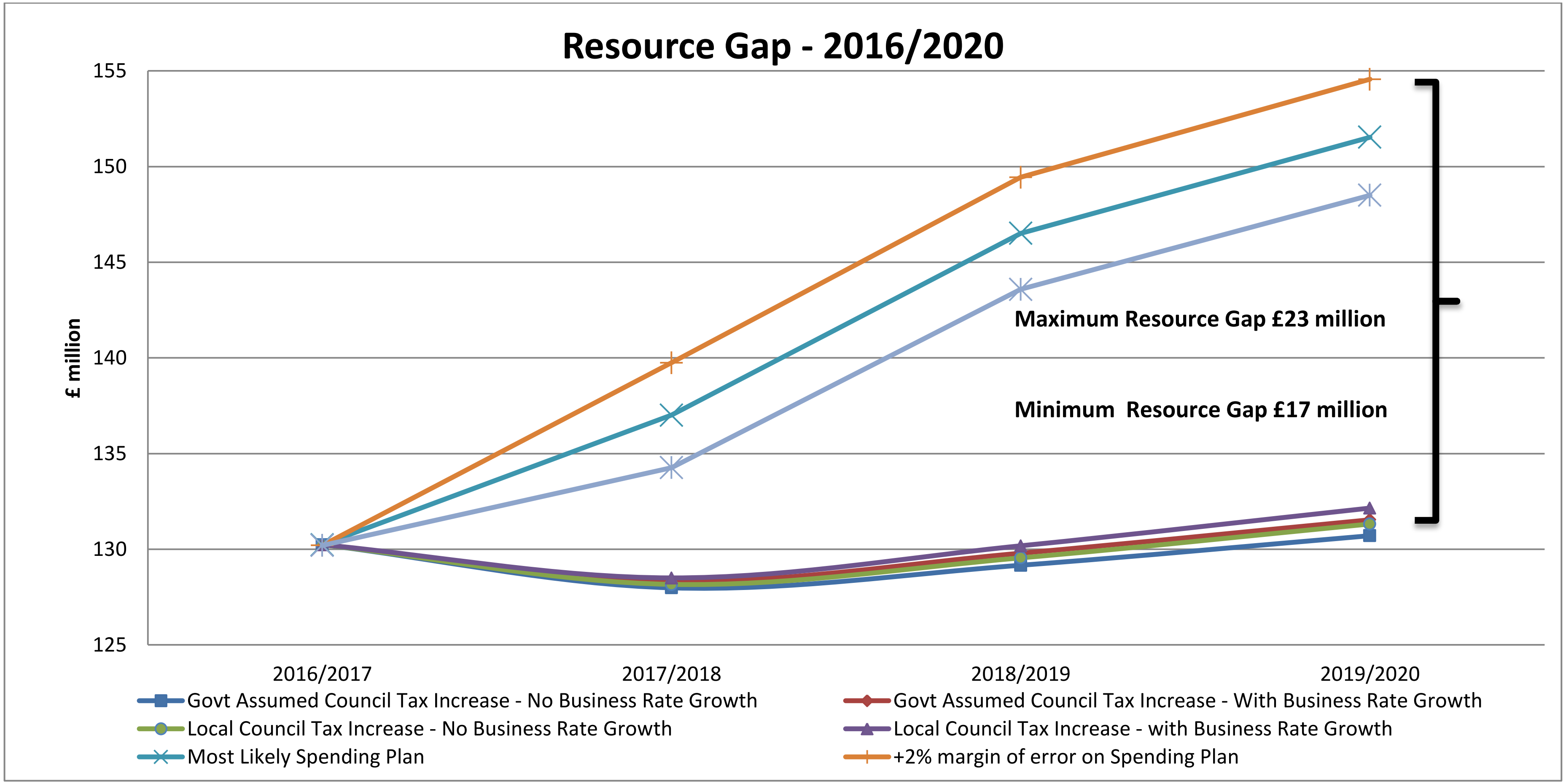
MTFS Scenarios

5.26 In determining the MTFS a number of scenarios have been developed to assess the sensitivity of the funding forecast thereby providing a range of likely outcomes compared to the baseline model. The Baseline Model is based on an increasing Tax Base for Council Tax purposes, an annual increase in Council Tax but no growth in Business Rates.

5.27 The impact of alternative resource scenarios is set out below, the Baseline Model being changed to reflect one or more changes in the resource assumptions:

Alternative Scenarios to Baseline Model	Baseline Model 2019/2020 £ million	Business Rates £ million	Council Tax £ million	Alternative Resource 2019/2020 £ million
Gov't Assumed Council Tax Increase, with Business Rates Growth	130.7	0.8		131.5
Maximum Council Tax Increase, No Business Rates Growth	130.7		0.6	131.3
Maximum Council Tax Increase, with Business Rates Growth	130.7	0.8	0.6	132.1

5.28 In terms of the Spending Plan set out in the Baseline Model a +/- 2% variance has been included in the MTFS scenario. The impact of these scenarios is set out overleaf.



5.29 In looking at alternative scenarios the extent of the range from the baseline model needs to be considered in relation to mitigating actions, and strategy for addressing a funding gap of this magnitude.

5.30 One mitigating action is the assessment of Reserves, both the General Fund but also those Earmarked Reserves that have been established to mitigate financial risk. The MTFS recognises that, in view of the unsettled economic background and significant changes that will have an impact upon medium term finances (such as the localisation of business rates), there is an ongoing need to review and establish a level of Reserves which both allows the Council to withstand the financial impacts of future funding reductions, at a local or national level, and provides funding to enable the Council to transform to deliver fit for purpose services which meet the changing needs and expectations of service users.

5.31 The maintenance of a prudent level of Reserves and a prudent level of contingency is also used to mitigate the risk of potential abortive costs in relation to contractors experiencing financial difficulty. The MTFS does not overtly reflect this; nevertheless the level of reserves and the inclusion of a revenue contingency mitigate this risk, during the MTFS period greater reliance will be put on the general reserve to mitigate risk.

Medium Term Financial Strategy: 2017/2018 to 2019/2020

5.32 There is a continued need, having regard to MTFS forecasts, to target efficiencies and cost savings. A transformational approach is required to address the funding gap identified in the MTFS and to ensure the ongoing sustainability of Council services. There are a number of themes that the Council is adopting to transform the organisation within the resource envelope:

5.33 The Council has committed to a number of Service Reviews which will consider how the service can be delivered most effectively. The reviews span the life of the MTFS; and consider how services can change to deliver greater value for money whilst meeting the needs of the service users. The Service Reviews agreed to date include:

- Adult Social Care Development Plan
- Waste & Recycling
- Libraries
- Cultural Services
- Support Services
- Council Owned Company
- Transportation Review (Adults, Children and public)

5.34 The Council, working with Price Waterhouse Cooper (PwC), is reviewing its Target Operating Model (TOM). The TOM will look at how the Council can be best organised to deliver the Corporate Plan, identifying the technology needed to deliver services efficiently, reviewing the functional processes to support the business, and the level and capacity of staff. The outcome of the review will deliver a series of options for the Council to consider to transform services to a steady state by 2019/2020, when it is anticipated that the funding reductions will stabilise.

5.35 The Council has already agreed a number of savings proposals as part of the Budgets set in previous years. These savings will form part of the new plan which will encompass both Service Reviews and Projects arising from the TOM work. In addition the Council will continue to look for efficiencies and better ways of working as part of the day to day operations of the business, including:

(a) Creating capacity through additional efficiencies and service delivery options;
(b) Implementing demand management strategies including investing in Channel Shift;
(c) Increasing Business Rate income through economic development activity;
(d) Raising additional revenue such as increasing income and external funding;
(e) Identifying opportunities to "invest to save".

5.36 Given the key messages above, the Council needs to continue making savings that provide the framework for longer term, radical solutions. If potential solutions are not identified, and then taken, this will have implications; it will limit the Council's ability to respond to future community needs and fully implement priorities.

5.37 The process includes the preparedness to undertake a comprehensive redesign of services and will require sophisticated engagement and a dialogue with citizens to minimise impacts and arrive at sustainable new service arrangements.

5.38 Traditional efficiencies can play a part, but only a part, in this process as in reality a whole series of efficiencies and service reforms are required, with more ambitious options required to deliver transformational change through radical re-design of services over the longer term. More radical service re-design will require a longer lead time to effect the required changes.

Appendices: *A: Financial Forecast 2017/2018 to 2019/2020*
B: Medium Term Financial Strategy – Proposed

DAVE HODGSON
Mayor

APPENDIX A

FINANCIAL FORECAST 2017/2018 TO 2019/2020

Baseline Model

	2017/2018 £m	2018/2019 £m	2019/2020 £m
Council Tax	77.7	82.2	86.9
Adult Social Care Precept	1.5	1.6	1.7
Business Rates	34.2	35.2	36.3
Revenue Support Grant	14.6	10.2	5.8
Total Resources	**128.0**	**129.2**	**130.7**
Budget Requirement Carried forward	130.2	137.0	146.5
Base Budget changes	0.0	0.0	0.0
Legislative / Funding Changes	-0.1	0.3	0.4
Demand / Demographics	3.6	2.8	2.7
Other service Issues	1.5	1.6	1.5
Corporate Pressures	2.5	1.7	1.4
Transitional Funding	-0.7	0.7	
New Homes Bonus	0.0	3.1	0.2
Better Care Funding		-0.7	-1.1
Net Spending	**137.0**	**146.5**	**151.5**
Net Resource Position	**9.0**	**17.3**	**20.8**

APPENDIX B

BEDFORD BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2017 - 2020

Councillor Michael Headley
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INTRODUCTION

1. The Medium Term Financial Strategy (MTFS) is the Council's key financial planning and policy document. It sets out the:

   - Policy Context of the Strategy;
   - Linkage of Medium Term Finance Strategy to the Sustainable Communities Strategy and Corporate Plan;
   - National and Local Priorities;
   - Revenue Budget;
   - Capital Budget;
   - Financial Outlook – Capital and Revenue;
   - Efficiency Requirements;
   - Risk.

2. The MTFS has to be considered as part of a corporate wide process and it links into the wider decision making of the Council.

POLICY CONTEXT OF THE MEDIUM TERM FINANCIAL STRATEGY

3. The MTFS is the Council's overarching Financial Strategy and Policy document. The purpose of the MTFS is to give financial expression to the Council's plans for the next five years, in the context of the Council's longer term plans as set out in the Community Plan.

4. The MTFS sets out the Council's funding plan, for achieving its goals and priorities, balancing available financing and spending ambitions. It highlights the financial projections for financing, spending (revenue and capital), and reserves. It also highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, it links decisions on resource allocation to decisions on policy priorities.

5. In addition, the Council has approved corporate policies which, in addition to the MTFS, act as a cornerstone of its Financial Management. These include:

   - Capital Investment Strategy;
   - Corporate Asset Plan;
   - Value for Money Strategy;
   - Procurement Strategy;
   - Human Resource Strategy;
   - Risk Management Strategy;
   - Information Technology Strategy.

6. Looking ahead, the Council's financial planning process will continue to develop. It will promote the best use of limited financial resources, and facilitate the alignment of those resources to the Council's priorities. Base budgets will be analysed with increasing sophistication and spending that does not contribute to Council priorities will come under increasing scrutiny.

LINKAGE OF THE MEDIUM TERM FINANCIAL STRATEGY TO THE SUSTAINABLE COMMUNITIES STRATEGY & CORPORATE PLAN

7. The Council is committed to working with its communities and partners to improve local quality of life and, working together with its partners as part of the Strategic Partners Board (the local strategic partnership for Bedford Borough), the Council and Partners published their Sustainable Community Strategy – Moving Forward Together. This sets out the vision to make the Borough a better place to live, work and visit.

8. The Council's purpose and key priorities are expressed in its approved Corporate Plan (derived from the Sustainable Communities Strategy). Importantly, the allocation of resources over the medium term is intended to reflect the established priorities.

9. In developing the Corporate Plan and the MTFS, it is important to give full regard to the following:

   - National and local priorities;
   - stakeholder and partner views;
   - external drivers, including funding variations and requirements to improve efficiency;
   - capital investment plans and their revenue implications;
   - risk assessments and financial contingency planning;
   - sensitivity analysis;
   - expected developments in services.

10. ~~Bedford is a designated growth area and could experience a high level of population growth that would impact on all of the Council's services~~. The Council needs to manage the~~ise~~ continued high level of population growth and economic growth and resulting impact on Council services, while continuing to improve, in order to meet its ambition to become an excellent authority. ~~and to excel at delivering high quality cost effective services across the Borough.~~ The MTFS must recognise these challenges and, in doing so, takes its lead from the strategic goals and priorities outlined in the approved Corporate Plan.

REVENUE BUDGET

(a) Revenue Budget Strategy

11. The Council's financial strategy for 2017/2018 to 2019/2020, as set out in this Strategy, is to contribute to the Council's overall vision and priorities by:

- Securing stable and sustainable budgets within the financial resources available;
- Ensuring that limited resources are focussed towards the Council's highest priorities;
- Recognise risks and ensure an adequate level of financial protection against risk by maintaining a prudent level of financial reserves;
- Securing an understanding of sources of potential finance;
- Building financial capacity for fundamental change;
- Being flexible to allow shifts in spending if circumstances change;
- Ensuring that the Council is not overburdened with financial commitments.

12. The Council's MTFS is reviewed annually on a rolling five year basis and, through the revenue budget determination process, seeks to link decisions on resource allocation with decisions on policy priorities. Due to the uncertainty of funding beyond the forthcoming Spending Review period the forecast at this refresh has not been extended, and therefore is currently three years.

13. The clear message is that budget setting and medium term financial planning will be tough over the duration of the MTFS and the following financial objectives will, therefore, help guide budget proposals:

- A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
- Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
- General reserves should be maintained at all times at or above the agreed minimum level;
- Constraining annual Council Tax increases to an acceptable level;
- The pursuance of "invest to save" opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
- A commitment to explore income generation opportunities and to maximise income from fees and charges;
- A commitment to maximise efficiency savings.

14. Full regard will be given to Revenue Budget forecasts (annually updated in this Strategy) and any increase in the ongoing annual Revenue Budget (by way of use of the contingency provision or virement) will be subject to the expenditure being either legally unavoidable or considered affordable after taking into account:

- any forecast savings targets;
- Implications on Council Taxpayers in future years.

15. In the light of any forecast~~s~~ savings targets, every effort will be made to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.

16. Notwithstanding 15~~6~~ above, if the Council is facing a position whereby the ensuing years forecast expenditure is more than the forecast total income to be received, it can elect to consult Council Taxpayers on either the option to reduce service levels or increase Council Tax and the Council will have regard to the consultation outcome before it reaches its final decision. The Council is required to hold a referendum for any Council Tax rise in excess of an amount set by the Secretary of State, in January each year, to ensure that Taxpayers support the proposed Council Tax increase.

(b) Revenue Budget Policy

17. To ensure a continuously stable financial base for the provision of Council services and functions, the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources in each and every financial year.

18. In setting out the above policy the Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.

~~19. It will be the aim of the Council to keep within any Government guidelines for Council Tax changes unless consultation with Council Taxpayers results in support for an increase above the guidelines and providing the Council deems this to be appropriate, having regard to Government guidelines. The commitment will be to constrain increases and, if possible, to reduce the burden of Council Tax for residents in real terms.~~

20. A prudent level of revenue contingency will be maintained to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding

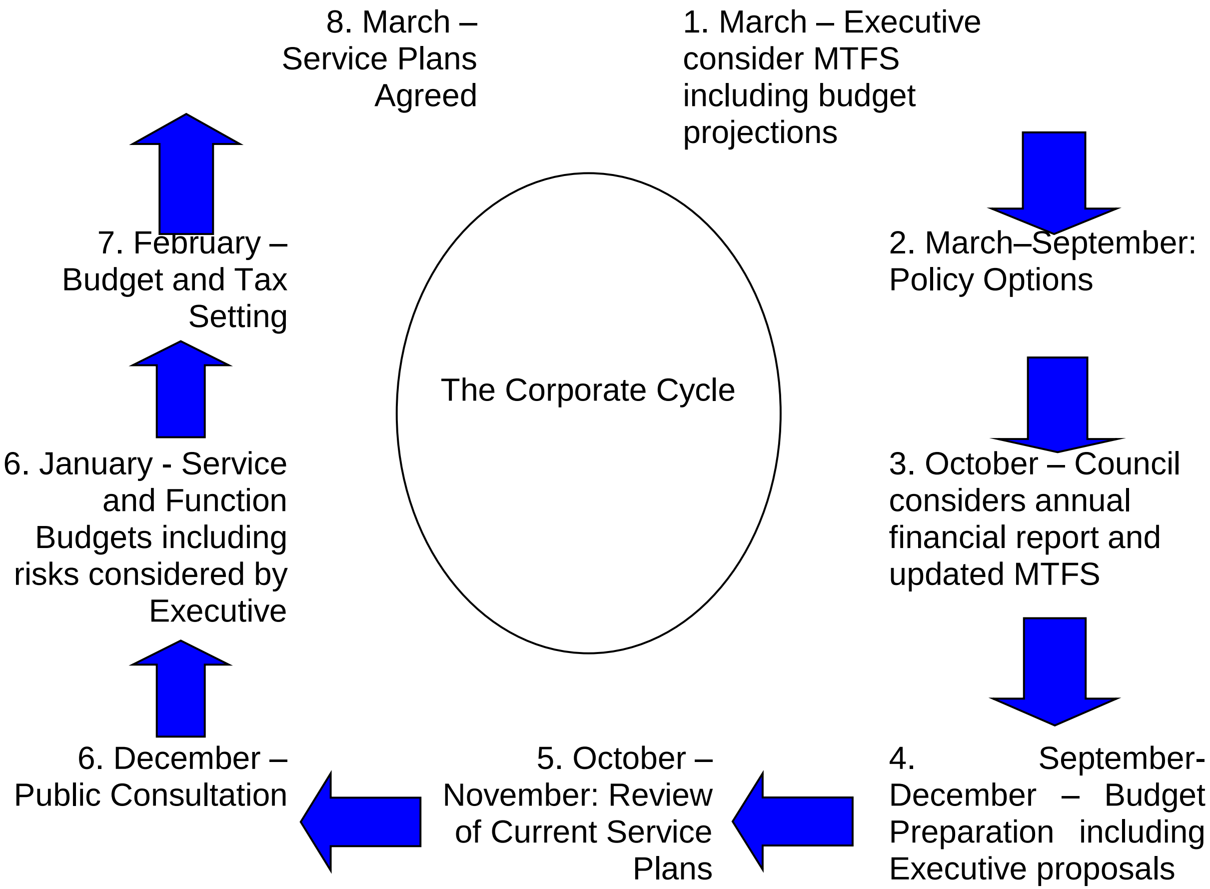
21. Under Section 25 of the Local Government Act 2003, before approving the ensuing year’s Capital and Revenue Budget, the Council is required to receive and take into account a report of the Chief Finance Officer on the robustness of the estimates leading to the Council’s Council Tax requirement and the adequacy of financial reserves. Council needs to consider:

- affordability (having regard to Council Tax implications);
- prudence (having regard to Council policies/strategies);
- sustainability (having regard to forecast annual expenditure and income).
- In addition it must also take into account <u>risks</u> and impact on <u>reserves</u>.

22. The Council's ~~five year~~ financial strategy reflects the anticipated reduction in Government Grant over the medium term and, as such, highlights that over the five year period resources are not going to be able to sustain the current level of spend. Consequently the Council has put in place a programme of service and efficiency reviews that will look to reduce costs and better focus resources on the Council's priorities.

(c) <u>Revenue Budget Planning</u>

24. With regard to integration to the wider policy making process, the annual cycle for the revenue budget is shown below:



25. In determining Council Tax increases, the Council will endeavour to keep increases within the Referendum Limit issued by the Secretary of State. ~~due regard will be given to Government guidelines issued and proposed increases will not exceed this guidance~~.

26. The determination of the revenue budget and capital programme will also have regard to the Corporate policies relating to Human Resources and Information Technology and, in particular:

(i) Human Resources Strategy

The Executive, when considering the staffing budget, will have regard to the needs and priorities of the Council and will seek to ensure a focussed competent, skilled and well trained workforce necessary to deliver and support key services within a stable environment.

Processes to ensure optimum resource deployment will be encouraged to maximise efficient service delivery.

(ii) Information Technology Strategy

In order to support the Council's Information Technology requirements, the Council's IT Strategy provides for the funding of new/replacement IT equipment through:

- operating leases (where available and cost effective);
- ICT Reserve combining both hardware and software;

Annual repayment to the Reserve will be made in order to provide the Council with financial stability in its budget planning in the medium to long term.

(d) Revenue Budget Monitoring

27. There is a need for effective budget monitoring to be undertaken in line with the Council's Financial Procedure Rules as this will enable the Executive to put plans in place to address forecast budget issues.

28. The Executive will, therefore, receive regularly reports in respect of budget trends and, as part of these monitoring reports, will identify potential variations to the approved budget and consider appropriate action. Where possible, performance data will be developed and reported as part of the process of linking budget allocations to performance attainment.

(e) <u>Value for Money</u>

29. Each Service and Function Budget submitted to the Executive/Council as part of the annual budgetary process will have regard to the requirements to secure economy, effectiveness and efficiency as detailed in the Council's approved Value for Money Strategy.

(f) <u>Financial Procedure Rules</u>

30. The Mayor/Executive and Council shall adhere to all Budgeting (including Budget Preparation, Monitoring and Control) requirements as set out in the approved Financial Procedure Rules of the Council. Officers shall adhere to the detailed financial procedures set out by the Assistant Chief Executive & Chief Finance Officer (as the statutory Chief Finance Officer) as required by Financial Procedures.

(g) <u>One-Off Savings, Fortuitous Income and Fixed Term Funding</u>

31. Given the Council from time to time achieves one-off revenue savings or receives fortuitous income these monies will ordinarily accrue to the general contingency and could be used to meet:

- any unavoidable one-off expenditure;
- one-off expenditure consistent with Corporate Priorities.

(h) <u>Growth Prospects</u>

32. The Local Government Finance Act 2012, and associated subsequent regulations, introduced extensive changes to local government finance from April 2013, including provisions for local authorities to retain a portion (50%) of the revenue that is collected from the Non-Domestic Rates payable in respect of properties situated in their area. The Business Rates Retention Scheme is based upon a policy initiative to promote economic growth through aligning financial and business growth benefit for Councils and, given the economic outlook and the increased reliance on locally raised taxation, the Council's financial planning needs to address the benefits and risks of this ~~new~~ funding structure. The Council will, therefore, actively pursue growth opportunities through growth plans in order to maximise revenue from this source but also give due regard to the potential for and impact of reduced yield arising, for example, from rating appeals (i.e. reductions in rateable value).

(i) Investment Opportunities

33. The Council has finite resources and will seek to supplement its resource base by exploring income generation opportunities, with appropriate emphasis on the pursuance of “invest to save” opportunities where statutory powers exist and where there is a financial return on the investment over an acceptable payback period. This includes, for example, investment in the Council’s commercial property portfolio in line with the approved Property Redevelopment Plan with a view to enhancing revenue benefits and deriving a financial payback from acquisition of new income earning assets.

(j) Reserves

34. The Executive will, as part of the annual budgetary process, or at such other times where it is necessary, identify one-off unavoidable expenditure and one-off expenditure for identified requirements. Such funding will be held in earmarked reserves until spent but will be subject to annual review by the Executive as part of the annual budget process to determine whether the monies still need to be held and that the balances held comply with professional guidance.

35. The Executive will, as part of the provisional outturn each year, review the level of general reserve based on a risk assessment. The General Reserve balance should not be adjusted without a full risk assessment.

36. Thus, the policy on reserves is to:

- establish earmarked reserves for specific commitments and make them subject to review as outlined above;
- only adjust the General Reserve based on a full risk assessment.
- enable Directorates to carry forward legitimate under spends for project based work and planned expenditure commitments subject to:
    - An overall underspend within the Council (with any overspends taking first call on any underspends);
    - An overall underspend within the Directorate (with any overspends taking first call on any underspends);
    - A brief explanation by the service demonstrating the reasons for the underspend and the continuing service requirement;
    - Approval by the Assistant Chief Executive & Chief Finance Officer.

~~37. If these parameters are exceeded the Executive will be advised so that the opportunity costs compared to the benefits can be assessed.~~

(a) ~~There is a commitment to ensure that the level of the General Reserve is maintained at a prudent level, having regard to a risk based approach.~~

(b) ~~The likely General Reserve balance as at 31 March 2015 stands at £10.2 million, an increase of £2 million on the level held at 31 March 2014, to reflect the additional risks anticipated over the medium term.~~

(k) ~~Ongoing~~ Contingency Allocation~~Budget~~

~~38. The Council's five year strategy initially includes a Contingency Budget of £2 million. Strong financial management, the level of Reserves and Contingency, taken together, mitigate adverse financial outcomes.~~

39. The appropriate level of contingency will be assessed as part of each budget setting process in the context of the risk profile and the level of reserves available. Subject to this assessment of risk, it is anticipated that during the MTFS period greater reliance will be put on the General Fund Reserve to mitigate risk allowing for a reduction in the contingency budget.

40. The contingency is to cover:

- any net reductions in income sources during the year compared to the levels estimated;
- any unavoidable expenditure falling on the Council during the year which is not known at this time;
- any "one-off" expenditure needs which arise during the year and are considered critical to achieving the Corporate Plan requirements.

CAPITAL BUDGET

(a) Capital Investment Strategy

41. The Council's Capital Programme is determined, prioritised, delivered and monitored in accordance with the Council's approved Capital Investment Strategy. This Strategy is subject to annual review by the Executive.

42. The Capital Investment Strategy outlines the Council's approach to capital investment ensuring that it is directed to the Council's corporate priorities. It provides the framework for the Council to maximise the finance available for investment together with the allocation of capital reserves.

43. The Strategy, therefore, provides a mechanism for the Council, the Executive and its officers to manage, measure and monitor the Council's Capital Investment Programme including an annual review of investment needs targeted to key investment priorities.

44. Capital Scheme Bids will be evaluated and prioritised in accordance with the approved Capital Investment Strategy and based on the themes of the Sustainable Communities Strategy and Corporate Plan.

(b) Capital Finance Policy

45. The Council has a number of methods of ensuring the most effective use of available capital finance. These include:

(i) The Council will each year consider the proposed Capital Programme having regard the CIPFA prudential indicators. Council will consider the extent of borrowing based on these indicators.

(ii) The Council will seek to maximise resources for capital investment from all potential sources as outlined in the approved Capital Investment Strategy.

(iii) Any savings made on capital schemes will potentially reduce the need for external borrowing.

(iv) A prudential financial framework will be maintained so that, once priorities have been determined, no capital scheme can be authorised (and no commitment made) until:

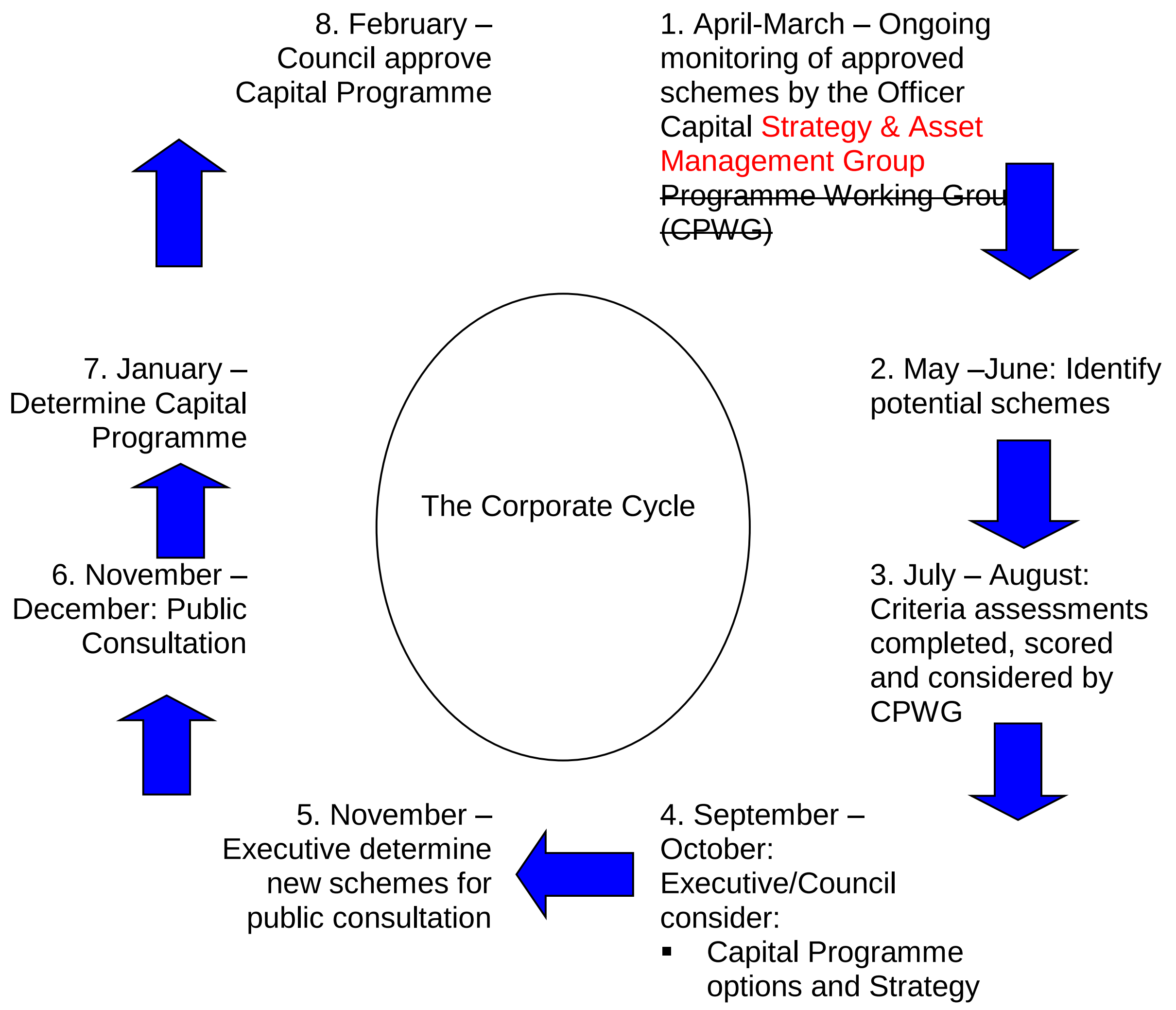
(a) capital finance is in place to cover the full capital costs; and

(b) it has been determined by Council that the ongoing revenue cost consequences are affordable in the light of forward three year Revenue Budget forecasts and related Council Tax consequences.

47. An annual review of the capital programme will be undertaken and, in doing so, full regard will be given to the Prudential Indicators before any proposals/decisions are made in respect of a revised programme. There is a need to be cautious in terms of future borrowing requirements given the capital financing costs and future decisions will need to balance the need for, and cost of, investment or failure to invest. Continued endeavours will be made to support revenue contributions to capital outlay to ensure that funding is available for essential ongoing investment needs.

(c) Capital Budget Planning

48. With regard to integration to the wider policy making process the annual cycle, for the capital budget is shown below:



<u>EFFICIENCY REQUIREMENTS</u>

49. The continued Austerity Measures set out in Spending Review 2015 will require the Council to continue to make radical changes in order to transform itself to deliver sustainable services to its residents. ~~emphasis on efficiency targets, and t~~ The indications are that future spend pressures will significantly exceed the forecast growth in resources (with a significant ~~potential~~ impact on the delivery of services), which requires the Council to ~~demonstrate that they continue to deliver~~ plan for ongoing efficiencies in relation to the provision of services. The financial planning process will, therefore, facilitate the identification and delivery of efficiency savings with emphasis on <u>challenging</u> service delivery, <u>comparing</u> performance, outcomes and delivery options, ensuring <u>competitiveness</u> and <u>consulting</u> fully on emerging proposals and service options.

50. In response to the reduction in Government Grant, set against anticipated spending demands, and the ongoing commitment to efficient and cost effective service delivery, the Council has put in place a programme of initiatives designed to review services delivered, review and improve internal processes and reappraise the workforce model required to deliver services in the most efficient and effective manner. ~~targeted service and efficiency reviews as part of a transformation agenda and with a view to a developing more tightly defined Priority Led Budgeting regime. These reviews will have to, at a minimum, to identify efficiencies/savings equivalent to the funding gap identified in the MTFS.~~

51. ~~There is a requirement, in response to the financial landscape, to continue the endeavours to make the Council more efficient and to put it on a strong position to meet the inevitable pressures that will be faced by local government. There is a commitment, as part of the ongoing service reviews, to look closely at services and to continue to deliver efficiency in corporate and transactional services.~~

52. The Council has committed to a number of Service Reviews which will consider how the service can be delivered most effectively. These reviews span the life of the MTFS; and look to how services can change to deliver greater value for money whilst meeting the needs of the service users. The Service Reviews agreed to date include:

- Adult Social Care Development Plan
- Waste & Recycling
- Libraries
- Cultural Services
- Support Services
- Council Owned Company
- Transportation Review (Adults, Children and public)

53. The Council is developing a new Target Operating Model (TOM) that will reduce the 'cost of the Council being in business'. The TOM will look at how the Council can be best organised to deliver the Corporate Plan, identifying the technology needed to deliver services efficiently, reviewing the functional processes that support the business, and the level and capacity of staff. The outcome of the review will deliver a series of options for the Council to consider to transform services, taking into consideration commercial opportunities available to the Council.

54. The Council is planning a Three Year budget Strategy to review levels of statutory and mandatory services to identify key core service and functions which form a priority call on ongoing income sources over the period of the Corporate Plan. The Council will also continue to look for efficiencies and better ways of working as part of the day to day operations of the business, including:

(a) Creating capacity through additional efficiencies and service delivery options;
(b) Implementing demand management strategies including investing in Channel Shift;
(c) Increasing Business Rate income through economic development activity;
(d) Raising additional revenue such as increasing income and external funding;
(e) Identifying opportunities to "invest to save".

55. ~~The programme of service and efficiency reviews will have regard to the categorisation of the Revenue Budget as follows:~~

- ~~The minimum level of statutory services which form a priority call on ongoing income sources;~~
- ~~key core service and functions which form a priority call on ongoing income sources over the period of the Corporate Plan;~~
- ~~other discretionary services which are subject to annual review of affordability (i.e. not critical to the Corporate Plan);~~
- ~~priority service enhancements funded over a fixed term period (in line with the Corporate Plan) and financed from Council revenue reserves~~.

~~53. The categorisation and budget requirement of each service and function is subject to annual review in the light of the changing financial position of the Council and any performance issues, together with any new statutory service or other unavoidable expenditure requirements.~~

54. As part of this process, all bids for additional resources must be accompanied by a quality business case and proposals will be subjected to more rigorous challenge through the strong corporate 'management line' within Services, as well as peer review by other Services.

RISK

55. As far as possible, changes in the Council's financing and spending from year to year should be predictable and manageable so that key services can be protected. That can never be entirely the case, hence the need for the Council to recognise and manage financial risks, including the identification of the significant risks in terms of the spending assumptions (see section 48 above). Sound financial planning processes are critical in predicting and managing the limited resources available.

56. The purpose of this strategy is to provide the key financial planning tool of the Council. Without forward financial planning difficulties will arise in respect of:

- not meeting the Council's own policy on Council Tax increases;
- not meeting any Government targets on Council Tax increases so as to avoid a Council Tax Referendum;
- not having sufficient Capital Resource to fund the approved Capital Programme.

57. It is important that, in considering Revenue and Capital Budgets, factors which could make the projections worse are identified. The Council will, therefore, as part of its Decision Making Protocol, consider the risk implications of all proposals. By adopting the actions in this Strategy, the risks outlined above should be mitigated.

SUMMARY AND CONCLUSION

58. This Strategy sets out how the Council will resource its Revenue Budget and Capital Programme over the Medium Term having regard to the policy objectives of keeping Council Tax increases within Government guidelines.

59. The MTFS represents the Council's overarching Financial Strategy and Policy document and gives financial expression to the Council's plans for the next five years, in the context of the Council's longer term plans set out in its Community Plan. It, therefore, sets out the Council's funding plan, for achieving its goals and priorities, balancing available financing and spending ambitions and, in doing so, highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, it links decisions on resource allocation to decisions on policy priorities.

60. The Strategy will also be kept under review and will, as a minimum, be reviewed twice a year as follows:

- in Autumn prior to considering the annual financial report to Council;
- in Spring as part of the forward financial projections.