South Gloucestershire Council

REPORT TO: CABINET

DATE: 4th February 2019

REVENUE BUDGET, SPECIAL EXPENSES AND COUNCIL TAX 2019/20 to 2022/23 (All Wards)

Purpose of Report

1. This report requests Cabinet to consider the council's current budget position, and approve the recommended revenue budget, Special Expenses and a Band D Council Tax for 2019/20 with the planning totals for the following three years. If the proposals set out in this report are agreed, it will lead to a 4 year Medium Term Financial Plan which is balanced for the first two years, with a remaining £9,593k core deficit by year 4.

Recommendations:

2. Cabinet is asked to recommend Council to:
   a. Note the responses to the budget consultation;

   b. Take into account the Chief Financial Officer's comments on the robustness and sustainability of the budget;

   c. Approve a Revenue Budget of £220,960k for 2019/20, and an increased Band D Council Tax of £1,484.15. Set planning totals for future years of £220,104k, £221,469k and £229,331k for 2020/21 to 2022/23 respectively based on the contents of this report including illustrative increases in Band D Council Tax levels of £1,513.69, £1,543.81 and £1,574.53 respectively.

   d. Note the contents of the Medium Term Financial Plan (Appendix D) and its assumptions for later years, including the potential use of General Fund Balances;

   e. Approve the revised Council Savings Programmes at Appendix E;

   f. Note the position on Earmarked Reserves as set out in this report and at Appendix F;

   g. Approve the total and distribution of Special Expenses, including the revised indicative forecast Council Tax Base for each of the Local Preceptors, namely the 47 Parish/Town Councils, and the Unparished area, expressed as Band D equivalent properties for 2020/21, 2021/22 and 2022/23, as set out in Appendices H and I;

   h. Approve the 2019/20 Annual Pay Policy Statement as set out in Appendix J;

   i. Approve the recommended changes to the Local Council Tax Support Scheme at Appendix K;

j. Approve the Care Leavers Council Tax Exemption Scheme at Appendix L;

k. Approve the Business Rates Retail Relief Scheme at Appendix M;

l. Approve the arrangement of a 10 year loan extension for Bristol Aerospace Museum (as detailed at paragraph 51), provided terms agreed with the museum's private sector loan provider are no more favourable, and delegate authority to the Deputy Head of Finance, Revenues & Welfare to progress the contractual changes in consultation with the Head of Legal, Governance and Democratic Services;

m. Give delegated authority to the Director of Corporate Resources to make technical changes to the report, if required, ahead of final despatch to Council.

Policy

3. The Council's Constitution sets out the budget and policy framework. The Council is required to calculate budget requirements and levels of council tax for each financial year and to set a balanced budget. The budget for the forthcoming year must be set by midnight on 10 March at the latest. In addition, the Council is required to consult on its budget proposals in accordance with the requirements of the Local Government Act 1992.

4. The Chief Financial Officer also has a statutory duty to report on the robustness of estimates and the adequacy of reserves when the Council is considering its budget requirement.

Background

5. Cabinet has considered a number of reports as part of the build-up of the revenue budget. Cabinet set the overall budget assumptions on which the revenue budget was prepared on 2nd July 2018. This has then been updated following further consideration of the revenue budget by Cabinet on 8th October 2018.

6. The Council has also undertaken a budget consultation exercise between 15th October and 31st December 2018 to gather residents', businesses' and key stakeholders' views on priorities, core services and the Council's high level savings targets. The Scrutiny Commission has also been engaged and had opportunity to review and comment on the budget proposals. The results of this consultation are set out in this report.

7. Cabinet agreed the Council Tax Base figures on 3rd December 2018 which have been used in this budget report. The formal estimate of the 2018/19 Collection Fund year-end balance is included on the agenda for this meeting.

8. The Autumn Statement 2018 with the annual update of the Government's plans for the economy was announced on 29th October 2018 and the Provisional Local Government Finance Settlement for 2019/20 was issued by the Ministry for

Housing. Communities and Local Government (MHCLG) on 13th December 2018 and due to be updated by the end of January 2019 and not available when this report was published.

Issues

9. The main issues to be considered and covered in this report are:

    i. The External Environment
    ii. Budget Consultation Results
    iii. Council Funding 2019/20 (including School Funding)
    iv. Revenue Budget 2019/20 to 2022/23
    v. Earmarked Reserves and General Fund Balances
    vi. Reform of the Local Government Finance System
    vii. Special Expenses
    viii. West of England Combined Authority

i. The External Environment

10. The latest economic and fiscal outlook produced by the Office of Budget Responsibility (OBR) was published to coincide with the Chancellor's Autumn Statement in October 2018. The OBR report indicated that real GDP growth was lower than previously expected although employment continued to outstrip expectations. Consumer price inflation (CPI) declined in the first half of 2018 although higher oil prices and weaker exchange rate pushed up inflation in subsequent quarters. The report also highlighted that uncertainty regarding the Brexit negotiations appeared to have dampened business investment. More detailed analysis is provided in the Treasury Management reports to the Audit and Accounts Committee and Council.

11. Following the OBR report, MHCLG announced the provisional Local Government Finance Settlement (LGFS) for 2019/20 on 13th December 2018, together with indicative figures for 2019/20. At a high level, the provisional LGFS:

    a. Confirmed continuing reductions to Revenue Support Grant;
    b. Updated Core Spending Power figures;
    c. Announced £180m for the Business Rates Retention Levy Account would be released;
    d. Announced consultations on Relative Needs and Resources (Fair Funding Review) and Business Rates Retention Reform.
    e. Provided the provisional Social Care grant allocations following announcement in the Autumn Budget 2018;
    f. Confirmed no changes to the council tax referendum principles for local government;
    g. Confirmed New Homes Bonus framework remains unchanged for 2019/20.

12. The financial implications arising from the provisional LGFS are considered in more detail throughout this report. It should be noted that at the time of writing this report the final settlement had not been announced by Government, which could lead to changes to the provisional settlement above.

ii. **Budget Consultation Results**

13. An important part of the Budget and Council Tax setting process is the budget consultation with South Gloucestershire residents and businesses. The following methods have been used this year: paper survey mailed to residents, online survey; viewpoint citizens' panel, invitation to comment via letter, email and social media.

14. The deadline for responses to the Budget Consultation was 31st December 2018 and the summary results from the budget consultation exercise are shown in Appendix A. Any further comments received that could impact on these results will be updated to the Cabinet. The main outcomes from the responses are:

Main outcomes	Resultant actions
Council Tax 73% of residents support an increase in council tax, with 37% supporting an increase of 1.99% and 36% supporting 2.99%	Residents have continued to be supportive of an overall increase in council tax to support ongoing service provision. Overall 36% supported a 2.99% increase, and 37% a 1.99% increase in Council Tax. 22% supported a freeze. Respondents were also asked if an increase in council tax would be more amenable if the additional funds were ring-fenced for a specific service. In total 36% agreed and 46% disagreed. ACTIONS: The budget proposals set out in the MTFP are for an overall increase of 2.99% in 2019/20 in council tax, with 1.99% in subsequent years. Future years are for planning purposes only, and will be subject to decision making and consultation responses in future years. As the council has taken the maximum adult social care precept in previous years, it is unable to utilise this flexibility in 2019/20.
Satisfaction with services and support for Core Council Activities as part of service prioritisation process	Results have generally been consistent with previous years, services with the highest satisfaction being parks and open spaces, libraries, sport and leisure and waste and recycling. Lowest satisfaction was seen around highways and roads, local bus services and care for older people. Environmental health and trading standards have increased satisfaction across users, whilst Children's Social Services have fewer dissatisfied users. Looking at the core services the Council has identified to support priority setting and funding decisions, those with the highest support were education, health and wellbeing and safeguarding children and adults. The least well supported was reducing inequality and deprivation. Whilst 82% of residents were satisfied with South Gloucestershire as a place to live, less than half of respondents thought the Council keeps them informed about services, changes, or that the council acts on their concerns. ACTIONS: The budget proposals set out in this report seek to continue to protect core areas as far as is possible, with investment in safeguarding and social services. Many of the services that respondents rank highly and value are also the council's highest spending

Main outcomes	Resultant actions
	comparatively to other authorities. To enable the council to meet its budget pressures, a number of these areas will form part of the savings reviews within the ECS department over the coming years, these reviews will seek as far as is possible to protect outcomes and are looking to still protect our net cost of service at above the average of other similar authorities. The budget also includes additional funding to support educational attainment across our schools, and continues to provide support for care leavers. The Council's support for a devolution deal should continue to promote a more West of England focussed solution to strategic issues around skills, jobs, transport infrastructure and homes, as well as unlocking significant new funds for the area to invest in this priority. A key element of the Council's new digital strategy is focussed around engaging externally, and better communication with residents, the funding previously included with the MTFP should deliver improvements in this area over the medium term.
Satisfaction with approaches to savings funding	The most supported approaches to delivering savings remain through more efficient use of council assets, land and buildings, the better use of technology, and working in partnership with other public bodies. Making more services available online and using digital technology more widely to support delivery of services had the largest increase in agreement from last year. The lowest areas of support continue to be for reducing quality of services, transferring services to the private sector, and scaling back or stopping services. ACTIONS: The Council savings programmes continue to focus around doing things differently, and delivering savings through efficiencies where possible, however given the level of savings required it is recognised that this alone is not enough. The Council continues to look for savings through the use of its accommodation, with significant savings achieved from the ongoing rationalisation of its office suite, looking at alternative delivery models, smarter commissioning, and the targeting of our limited resources more effectively on the most vulnerable. The Council's digital strategy should lead to not only improvements in customer service, but greater staff productivity and financial savings from the use of technology. The Council continues to look for savings and added value from working in partnership with other public sector bodies, including health, neighbouring councils, and the combined authority.

iii. Council Funding 2019/20

Core Spending Power

15. The 2019/20 Provisional Local Government Finance Settlement (LGFS) figures for this Council are provided below. As in previous years, these are subject to confirmation when the Final Settlement is published, which is expected by 31st

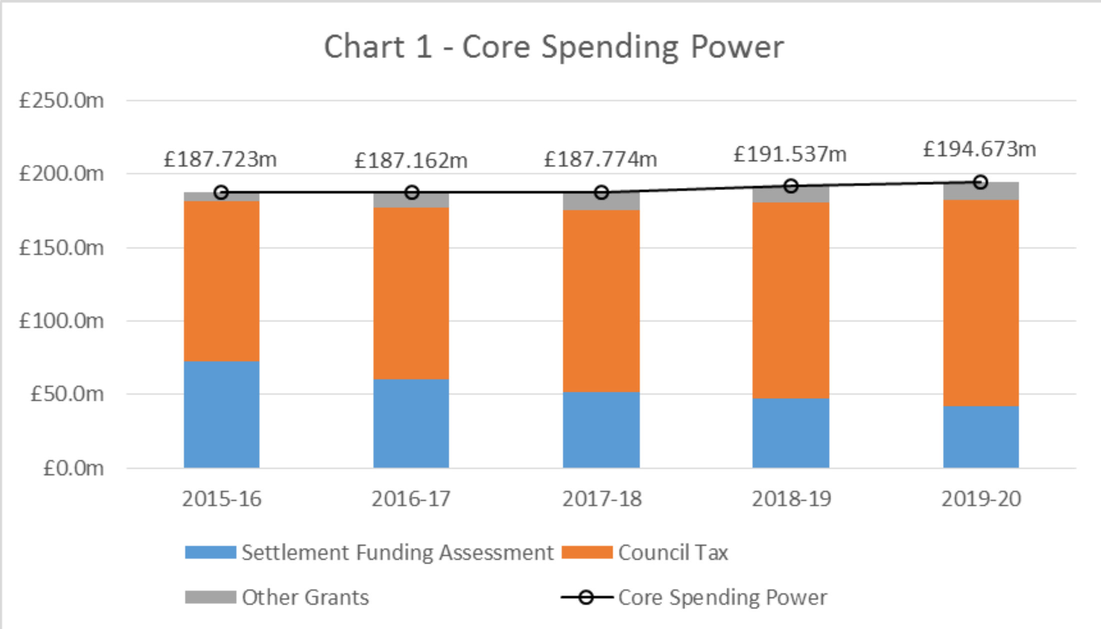
January 2019. Subject to these not being material, any changes will be managed through phasing of the draw down of the Financial Risks Reserve. The Council's overall provisional headline funding amounts for 2019/20 are:

TABLE 1:

Core Spending Power 2019/20	**£m**
Settlement Funding Assessment (provisional)	40.978
Compensation for under-indexing the business rates multiplier	1.208
New Homes Bonus	6.431
Improved Better Care Fund	3.561
Winter Pressures Grant	0.935
Social Care Support Grant	1.597
Assumed by Central Government:	
Council Tax Requirement	129.574
Additional Revenue from referendum principle for social care	10.388
Core Spending Power	**194.672**

16. The Spending Review set out the expected available revenue for local government spending through to 2020/21, using Office of Budget Responsibility (OBR) estimates, to help provide local government with an understanding of the likely resources available to the whole sector to deliver services during this Parliament. The local authority core spending power figures set out indicative figures for the potential income from core components that could be available to authorities over those four years.

17. The Spending Review in 2015 applied a reduction in funding of £1.3bn or 36% across local government between 2018/19 and 2019/20. Between 2016/17 and 2019/20, local government's funding has been reduced significantly and is taken account of within the Core Spending Power figures presented each year as part of the Local Government Finance Settlement. The table below shows that after the council's share of the reductions proposed in 2015 covering 2016/17 to 2019/20, the council's core spending power has increased by only 1.6%, between 2018/19 and 2019/20, a significant shortfall compared to current inflation rates increases.



18. The Council's Settlement Funding Assessment (SFA), which is the revenue received by local authorities in the form of Revenue Support Grant from central government and the share of business rates retained locally shows an 11.2% reduction between 2018/19 and 2019/20, following a 9.2% reduction between 2017/18 and 2018/19. The national average change in SFA for unitary authorities (without fire) against 2018/19 is 7.5% in 2019/20 (7.1% in 2018/19).

19. The council is also involved in a business rates pilot. The pilot will continue until the end of 2019/20, at which point the council will move to a revised business rates retention scheme, defined by the Fair Funding Review which is currently being undertaken by Central Government – the next consultation for which was released with the 2019/20 Provisional Local Government Finance Settlement in December 2018. There are also a number of other grants received from Central Government outside of the Local Government Finance Settlement, which are budgeted for in accordance with the specific conditions applying.

Business Rates

20. The 2013/14 Finance Settlement saw the launch of the Business Rates Retention scheme as the principal form of local government funding from Government. From 1st April 2017, this Council became part of the West of England 100% Business Rates Retention Pilot as a result of the Devolution Deal and formation of the West of England Combined Authority. This saw the council trialling the risks and rewards arising from removing central government's share of local business rates retention. The MTFP shows the current benefits to the council of this are approximately £5m per annum in 2019/20, although this will not be confirmed until after the end of each financial year.

21. The Medium Term Financial Plan and the 2019/20 budget includes a revised forecast of the council's business rates revenue. This has been adjusted since October 2018 to reflect the latest available data and takes account of the technical adjustments announced in the LGFS that impacted upon net business rates retained by local government as well as local changes relating to appeals and reclassifications. The changes in budgeted business rates resources can be summarised into three parts:

- Whilst total business rates are budgeted to increase in 2019/20 and beyond, current growth is captured within the three enterprise areas at Emersons Green, Severnside and Filton which form part of the wider West of England City Region Deal.
- Any growth within the rest of South Gloucestershire has been offset by an increase in reliefs granted to businesses through central government legislation.
- A review of the appeals provision calculation resulted in a reduction in the overall provision held in relation to business rates. This had a positive impact on the estimated Collection Fund position, which is detailed further in paragraph 34.

21. **Retail Rate Relief Scheme** - The government announced at Autumn Budget 2018 that it would provide a business rates retail discount scheme for occupied retail properties with a rateable value of less than £51k in 2019/20 and 2020/21. The council has identified 617 accounts where retail relief may be applicable, resulting in an average award of £2,450 per account. Local authorities will administer the scheme and have been provided with guidance about the operation and delivery of the policy. This guidance has been used to draft the Business Rates Retail Rate Relief Scheme at Appendix M and as a result wider consultation has not been undertaken. The scheme requires Council approval for implementation on bills from 1st April 2019 and as such a recommendation is included in this report. The scheme will be fully funded by government through s31 grant based on the value of relief granted.

22. **100% business rates retention pilot** – Since 1st April 2017 the council has been part of the West of England 100% Business Rates Retention Pilot, as mentioned above, and Government have confirmed this will continue in 2019/20. The Council continues to implement its local strategy of setting aside the gains generated from the pilot into the Financial Risks Reserve to support budget deficits in future years. Across 2017/18 to 2019/20, the council will have benefited from an estimated £18.5m in additional revenue funding through the establishment of the West of England business rates pilot.

23. The West of England Combined Authority (WECA) continues to lead the negotiations around any potential for pilot extensions direct with MHCLG and the Treasury and these conversations will continue over the forthcoming financial year with updates brought back to members as appropriate.

Council Tax – General Precept

24. Council Tax income has now been updated to reflect the Council Tax Base figures approved by Cabinet in December 2018. The Local Council Tax Reduction scheme impact on the 2019/20 Council Tax Base has been estimated based on a snapshot of data. In practice, individual Council Taxpayer’s circumstances will vary over time and this will have an unquantifiable effect on Council Tax yield. In turn this will have an impact on the Collection Fund surplus/deficit position at the end of 2019/20. The Council Tax income figure for 2019/20 is based on the current Local Council Tax Reduction scheme as approved by Council on 10 December 2014 and takes into account the impact of the proposed changes to the Local Council Tax Reduction Scheme found at Appendix K. The changes in Appendix K have been consulted upon with the preferred option being to bring self-employment minimum income levels in line with Universal Credit (39% of respondents), and the majority

(57%) of respondents preferring to allow up to six weeks to backdate a new claim as reflected in the revised scheme at Appendix K.

25. The Provisional LGFS retained the general council tax referendum limit at 3% in 2019/20. This assumption is retained in the MTFP included in this report.

26. In November 2017, the Chancellor announced that local authorities were to be able to charge a 100% premium on council tax for empty properties after two years. The premium is currently at 50% and any change will apply from 2019/20 resulting in an additional £70k of income per annum included in the MTFP. There are currently 109 properties within South Gloucestershire that will be affected by this charge. In February 2018, the Council approved the introduction of this change and this will be implemented from April 2019.

27. In February 2018, members approved budgetary allowance of £35k to support care leavers by providing a council tax discount. In 2018/19 this has been administered as a grant awarding funding to individuals to pay part of their council tax liability. From 2019/20, the council wishes to administer the scheme as a formal council tax exemption allowing the reduction to be seen on the face of the council tax bill by those residents in receipt. This will be more transparent for the resident and streamline the administration of the scheme. The proposed Care Leavers Council Tax Discount Scheme is shown at Appendix L.

Council Tax – Adult Social Care Precept

28. During part of the Spending Review period social care authorities (like South Gloucestershire Council) have been able to increase their Council Tax by 2 per cent per annum over the existing referendum threshold, with the proviso that the additional income from the 'social care precept' is spent on adult social care services. In 2017/18's LGFS, councils were given the choice to raise the precept by up to 3% in 2017/18 and 2018/19, or other lower combinations, provided the total increase over the 3 years (to 2019/20) did not exceed 6%. If taken up, councils needed to justify social care precept rises to taxpayers, and be able to show how the additional income was being spent. This Council determined to take the maximum 3% in each of the first two years, therefore this budget proposal assumes 0% in 2019/20 based on current guidance.

29. The Medium Term Plan forecasts for Council Tax income are therefore based on a Council Tax increase of 2.99% (2.99% plus 0% 'social care precept') in 2019/20, followed by a further 1.99% Council Tax in 2020/21 and thereafter for planning purposes.

30. The Adult Social Care (ASC) precept continues to be used to fund the cost pressures arising from adult social care cost within the 2019/20 budget.

31. Whilst no additional flexibility on the ASC precept was announced in the Provisional LGFS, further specific funding towards social care costs was announced in the Autumn Budget. Firstly, the government awarded £240m to be spent on adult social care services to help councils alleviate winter pressures on the NHS. This funding was also received in 2018/19, and this council was awarded £935k. Secondly, £410m of funding was awarded to provide Social Care Support

Grant for adults and children's social care, of this £1,597k was received by this council; resulting in total one-off grant funding of £2,532k in 2019/20.

32. Based on the current ASC precept and included within the base budgets, the following investment has been made into Adult Social Care across 2016/17, 2017/18, 2018/19 and 2019/20 since the precept was introduced:

TABLE 2:

Adults Cost Pressures	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Cumulative £m
Inflation	1.8	1.9	2.0	2.3	8.0
National Living Wage	2.3	0.0	0.0	0.0	2.3
Apprenticeship Levy	0.0	0.1	0.0	0.0	0.1
Demographics & Service Delivery Investments and Other Adjustments	1.8	1.4	4.9	2.9	11.0
Demand & Price Held within Corporate Allowance	0.0	0.0	3.4	4.2	7.6
Total	**5.9**	**3.4**	**10.3**	**9.4**	**29.0**
2% Precept 2016/17, 3% Precept 2017/18 and 2018/19, 0% Precept 2019/20	-2.3	-3.4	-4.0	0.0	-9.7
Service Growth above 3% Precept	**3.6**	**0.0**	**6.3**	**9.4**	**19.3**

Collection Fund

33. The Council is also required to adjust its budget for 2019/20, for its share of any estimated Council Tax Collection Fund surplus/deficit for 2018/19 – council tax and business rates. This is the subject of a separate report on this agenda.

34. The Council's 2017/18 accounts included a significant provision for the potential impact of Business Rates appeals. The assumptions behind the calculation for this provision has been reviewed enabling a proportion of the provision to be released. The impact being the increase to the provision required for 2018/19 is much lower than expected in the Draft Revenue Budget in October 2018. As such, the estimated 2018/19 Collection Fund position is now forecast as a surplus of £963k, an improvement of £3,258k since the Draft Budget was prepared. The forecast position for council tax has seen a small increase since the Draft Budget with the surplus rising by £32k to £1,866k.

35. The combined council tax and business rates collection fund estimates result in a net surplus of £2,829k in 2019/20, an improvement of £2,368k against the £461k net surplus included in the Draft Budget in October 2018.

New Homes Bonus

36. The technical consultation on the 2019/20 Local Government Finance Settlement, published in September 2018, suggested there might be an increase to the deadweight for the 2019/20 "in-year" allocations. However, as a result of an additional £18m added to the funding of the scheme, no increase to the deadweight has been necessary and the threshold over which the bonus will be paid has remained at 0.4%. The assumptions in the MTFP have been updated to reflect this outcome.

Available Resources

37. Total estimated available resources across 2019/20 to 2022/23 are shown in the table below, based on the best information available at this time.

TABLE 3:

Resources Available (estimate)	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Council Tax	130,596	136,058	141,742	146,937
Council Tax - Adult Social Care Precept	9,891	10,088	10,290	10,444
Business Rates	46,794	44,550	44,881	43,302
Collection Fund Surplus	2,829	0	0	0
City Deal growth funding*	14,687	13,831	13,969	14,109
Improved Better Care Fund	3,561	2,246	2,246	2,246
New Homes Bonus	6,431	4,000	2,700	2,700
Winter Pressures and Social Care Support Grant Funding	2,532	0	0	0
Levy Account Surplus Draft Allocations 2018/19	568	0	0	0
Total Estimated Resources Available	**217,889**	**210,773**	**215,828**	**219,738**
Estimated Business Rates Pilot Gain - transferred to Financial Risks Reserve	-5,103	0	0	0
Net Estimated Resources Available	**212,786**	**210,773**	**215,828**	**219,738**

* paid into WoE City Region Deal pool for which SGC is the accountable body

38. In projecting the level of future business rates income, one of the most complicated issues is making an assessment around the impact of business rate appeals. The Council is required to meet its share of any losses on business rate appeals over which the Council has no influence or control. In effect this is part of the process of sharing the benefits and risks of business rate localisation. Under the pilot, the council is required to meet all business rate appeal risk. The provision is reviewed in detail on an annual basis to assess the level of risk and the value of provision required to be set aside. As a result of this process an adjustment has been made to the business rates appeal provision releasing funding, subsequently reducing the estimated business rates deficit in 2018/19 and the consequential funding requirement in 2019/20.

Schools Funding

39. The Dedicated Schools Grant allocation for 2019/20 is presented in four blocks. The schools block is used to fund mainstream schools and their provision. The central school services block is funding that local authorities use to provide services for all schools. The early years block is used to fund early years' provision for 2, 3 and 4 year olds. The high needs block brings together funding to enable commissioning of places and support for Children and young people with special Educational Needs or Disabilities from 0-25 years of age

40. The 2019/20 Dedicated Schools Grant for South Gloucestershire before funding is transferred to the Educational and Skills funding Agency for academies and post 16 high needs places. This is summarised below:

TABLE 4:

2019/20	**£000s**
Schools Block	154,981
Central Schools Block	4,175
High Needs Block	32,272
Early Years Block	16,525
Total	**207,953**

41. **Deficit Recovery Plan** – 2019/20 will be the third year of the 4 year DSG deficit recovery plan approved by the Council and the Schools Forum. The plan forecasts the DSG to achieve an in-year saving of £3,380k in 2019/20. Any surplus or negative balance will be transferred to the ring fenced DSG reserve at year end. The recovery plan forecasts a cumulative deficit reserve balance of £8,987k at the end of 2019/20, reducing to a balanced position by the end of 2020/21. It should be noted that based on current levels of expenditure, the 2019/20 forecast in-year saving and the target of achieving a balanced position by 2020/21 is at considerable risk. The Schools forum has begun to work more closely and effectively with the Council in addressing the deficit in recognition of the challenge to achieve a balanced budget.

42. Further details on the deficit position and future recovery arrangements are included in the Setting the Schools Budget 2019/20 report on this same agenda.

iv. Revenue Budget 2019/20 to 2022/23

43. The 2019/20 to 2022/23 revenue budgets are based on the assumptions agreed by Cabinet in July 2018, and build on the revised draft MTFP presented to Cabinet in October 2018. These draft revenue budgets have been updated to take account of any technical adjustments arising as well as any other changes necessary to better reflect future spending projections and Cabinet decisions, since the Cabinet budget report on 8th October 2018. These updates are included in the revised revenue budgets 2019/20 to 2022/23 in Appendix B.

44. The budget changes since the October 2018 meeting are summarised in Appendix D, with the main areas detailed below:
   - The interest rate forecasts have been updated to take account of forecast cash balances and the revised Capital programme.
   - The council's capital charges have been updated to reflect the revised capital programme and its new financing arrangements (set out further below).
   - The growth forecasts for the City Region Deal (CRD) have been refreshed with the impact being seen in both an increase in available resources and net increase in payments by the council into the CRD pool. Whilst this grossing up of cost and income is net neutral to the council, it does see benefit locally through Tier 1 and Tier 3 income streams, with the forecasts of both updated resulting in an additional £980k income in 2019/20. Of the total income received in 2019/20, £1,126k comes from Tier 3 income which is the local benefit arising from being part of the City Region Deal.
   - The two-year pay settlement proposed in December 2017 was agreed in 2018. In 2018/19 an across the board 2% increase was applied to the national pay spine and locally determined pay points. This covers the majority of the council's staff and non-teaching staff in schools who are on Hay grades which align to the NJC pay spine. Year 2 of the pay settlement (19-20) introduces a new national pay spine with clear assimilation from the old to new pay spine. The new pay spine gives a minimum increase of 2% to all staff covered by the pay spine and for staff in the lower grades significantly higher increases. For example, staff on the lowest pay point will receive an increase of 5.9%. Where increases are above 2% due to the introduction of the new pay spine, increases range from 2.3% to 7.9%. In

headcount terms, approximately 4,200 staff within the council and non-teaching roles in maintained schools will receive an above 2% increase, with nearly 500 of the council's lowest paid staff receiving an increase of over 5%. Increases from the national agreement settlement exclude any increase due on 1 April 2019 from incremental progression within a grade, which is typically worth an additional 2% on top of the basic award. This is to future proof the national pay spine to accommodate the National Living Wage now and in future years. The financial impact of this proposal on directly employed staff and relevant contracts has been modelled across the council with the additional cost in 2019/20 above the 2% base increase for staff on the lowest payscales estimated at around £400k. In October 2018, £1,000k of additional funding was set aside for pay related investment and the remaining circa £600k will be held to support delivering the strategic objectives of the council's pay modernisation review project which is nearing conclusion. A further £100k in 2020/21, £500k in 2021/22 and £300k in 2022/23 has been set aside to support the additional investment required to modernise the council's pay framework arising from changes to the pay scales. Specific proposals will be brought to Cabinet and/or Appointments & Employment Committee for consideration.

- During 2018/19 the council has reported to Cabinet on the financial position of social care services and considered these in conjunction with the corporate allowance held centrally to mitigate the potential price and demographic pressures arising in these areas and ensure the departmental budgets are aligned with spend pressures arising, which has also lead to an adjustment arising from reversing a one-off historic reduction to the Adult Social Care budget previously held in the MTFP for 2019/20. The future additional forecast demand and price pressures (shown in the table below) include an allowance of £1,910k towards pressures that may arise in the domiciliary care market, and a further £90k towards the costs of meeting the UK Care Association Minimum Price. The final budget proposals allocate specific funding to CAH to cover the current financial costs being experienced and reflected in the monitor reports. They also make further allocation to reflect estimated demographic and price pressures for the forthcoming financial years. The total budgetary increases within the MTFP towards social care for 2019/20 are summarised in the table below:

TABLE 5:

Cost Pressure	**Children**	**Adults**	**Total**	**Location**
Inflation	968	2,288	3,256	CAH
2018/19 Demand led forecast overspend rolled forward	1,074	2,133	3,207	CAH
Future additional forecast demand and price pressures	1,043	4,174	5,217	Corporate Allowance
Service delivery investments	1,264	462	1,726	CAH
Other adjustments	-48	287	239	CAH
Sub Total	**4,301**	**9,344**	**13,645**	
Savings Programmes	-441	-1,872	-2,313	CAH
Net Total Budgetary Change between 2018/19 and	**3,860**	**7,472**	**11,332**	

- The Council holds a Corporate Allowance to act as a buffer for areas of demand, volatility or significant financial risk. The 2019/20 Budget and MTFP assumes £3,207k held in corporate allowance for 2018/19 will be transferred on a permanent basis to the CAH department to reflect the social care pressures arising in that year. Corporate Allowance has subsequently been refreshed to increase the level of contingency held to primarily manage increasing prices and demand pressures across social care services and as noted in the table above £5,217k is held in 2019/20 within the Corporate Allowance for this purpose, as well as a small number of other potential cost pressures (see para 54 below).

- As discussed in the Final Capital Programme Report on this same agenda, the council has been reviewing the approach it takes to financing its capital programme. Capital finance regulations permit capital receipts to be used to repay debt allowing capital receipts to be retained by the council for longer as they are released over time in line with the useful economic life of the asset offsetting the Minimum Revenue Provision (MRP) charge that subsequently arises. By implementing this capital financing approach, all capital expenditure that cannot be funded from capital grants, revenue contributions, EDF, s106 and CIL (excluding expenditure covered by the Flexible Use of Capital Receipts policy) will be treated as debt financed (prudential borrowing) with the annual MRP contributions funded by a mixture of contributions from the existing revenue budget and available capital receipts. By doing this the council will be able to sustainably finance the existing programme and plan for ongoing investment alongside releasing £500k annual revenue savings from 2018/19 onwards.
- The Purchase of Annual Leave Scheme (PAAL) continues to deliver income in excess of the budgeted target and as such an additional £100k per annum has been captured in the MTFP.
- The council annually reviews the projected recovery of the pension deficit across the payroll. This exercise has enabled the release of a small contingency held to cushion the budget against under recovery. Avon Pension Fund are also due to make a one-off deficit repayment estimated at £239k to the council reflecting the council's deficit transferred on academy conversions up to 1st November 2018.
- In the Autumn Budget the Government announced that business rates relief would be available (and centrally funded) for all public lavatories under private and public ownership, resulting in a saving of £13k.
- The council's enabling budget is used to provide support to services to aid the delivery of the council's savings programmes. In July 2018, £700k was set aside in the Financial Risks Reserve (on the basis savings are delivered as profiled) to provide additional support on the basis it was anticipated the full £2,000k allocation of the Capital Programme would be allocated. This has been the case and the 2019/20 budget assumes the full £700k will be released for use. In addition to this, £360k has been set aside in the budget across 2019/20 and 2020/21 to specifically provide additional organisational staffing and technology support on a one-off basis to facilitate the delivery of cross cutting organisational requirements which provide a stable platform for the delivery of the savings programmes.

45. The delivery of the Council Transformation and Savings Programme has been further reviewed and refined resulting in some savings being profiled into later years offset by the bringing forward of others. The net impact being a slippage against the savings to be delivered in 2019/20 of £1,524k. This has been mitigated by releasing the CSP Non-Achievement Allowance of £619k on a one-off basis to support the cash flow as the savings are delivered. The non-achievement allowance remains in the base budget for allocation in 2020/21

onwards and may be drawn upon to support the timings for delivering ECS waste proposals, as noted in the Draft Revenue Budget 2019/20 in October 2018. It should be noted that these budget changes reflect the re-phasing of savings target, not reductions in targets at this point. Full details of all changes are included in Appendix E, and a summary is provided in the table below. The Financial Risks Reserve includes a further £2,500k to support transformational change and cushion further delivery risk associated with the CTSP. To ensure sufficient funding is available to support the delivery of the CTSP it may be necessary to draw down up to an additional £500k during 2019/20. Should this be required, it will be reported back to Cabinet through the quarterly monitors.

TABLE 6:

CSP / CTSP Changes Summary	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CAH				
CAH Plan as at Oct 2018	-4,518	-3,325	-2,406	0
CAH Revised Plan	-2,384	-4,449	-3,520	0
CAH Change - decrease (+) / increase (-)	2,134	-1,124	-1,114	0
ECS				
ECS Plan as at Oct 2018	-1,712	-3,162	-3,340	0
ECS Revised Plan	-1,692	-3,077	-3,340	0
ECS Change - decrease (+) / increase (-)	20	85	0	0
CECR				
CECR Plan as at Oct 2018	-1,544	-265	-371	0
CECR Revised Plan	-1,574	-235	-371	0
CECR Change - decrease (+) / increase (-)	-30	30	0	0
CAH Contingency				
CAH Contingency as at Oct 2018	600	700	700	0
CAH Contingency Revised Plan	0	0	2,000	0
CAH Contingency - decrease (+) / increase (-)	-600	-700	1,300	0
Total Revised CSP / CTSP	-5,650	-7,761	-5,231	0
Total Change - decrease (+) / increase (-)	1,524	-1,709	186	0

46. The above table provides a summary of CSP / CTSP phasing changes from the October 2018 position. A number of projects within CAH including Promoting Independent Lives, Developing Fair and Effective Personal Budgets and Transforming Outcomes of Learning Difficulty Clients are re-phased across the three year plan. The promoting Local First project will be accelerated to commence in 2019/20 and CTSP target associated with the Healthy Lifestyle Service has transferred from ECS to Public Health within CAH. The CAH programme plan includes ‘new opportunities’ with one of the options being the development of emergency accommodation for homeless households. The development of this project will take forward the recommendations made to Cabinet by Scrutiny Commission in December 2018.

47. The ECS programme has changed from October 2018 due to the Healthy Lifestyle Service transfer to Public Health, a re-phasing of the Commercial Orientation project and one-off acceleration of pre-application planning advice income and Section 278 income projects.

48. The CECR programme has changed from October due to an increased commercial investment income target and also the early delivery of commercial investment income. Areas of focus will be increasing commercial investment on properties through the Commercial Investment Fund set up in 2018/19 and considering options around joint ventures and housing companies. No specific savings targets are associated with these opportunities as the financial outcomes will depend on the focus of the legal entity. Progressing the recommendations arising from Scrutiny Commission's report on setting up a housing provision company will develop this thinking further. Should a revenue return be generated this will be offset against the wider commercial income target in the first instance. The CAH over-achievement contingency (held in Central Items) is released to support the re-phasing of projects within CAH.

49. In addition to these changes, the budget includes a number of service delivery investments as set out in Appendix B. These include additional funding:
    - To support the Improvement Journey within Children services
    - To provide additional support to Foster Carers through reviewing allowances
    - To provide additional support to the Safeguarding Team
    - To pump prime the Adults' Resilience Team staffing structure
    - To support winter pressures in adult social care
    - To research opportunities to support first time homebuyers in South Gloucestershire
    - To enable schools to continue to visit Bristol Aerospace Museum during 2019/20 and 2020/21, extending the 2018/19 programme
    - To support the first tranche of feasibility and development works for a series of High Street pilot projects in Kingswood meeting the objectives for the 'Love our High Streets' funding pot agreed by WECA in November 2018. The work will commence in 2018/19 and continue into 2019/20 and 2020/21.

50. Through the course of 2018/19, departments have identified a number of areas where budget will be reprioritised to focus on different areas of focus. These are detailed in Appendix B and cover the following areas:
    - Within ECS, existing resource has been diverted to firstly provide staffing and deliver a project to improve the living environment in areas that need it most through co-ordinated additional street scene cleansing, litter picking, graffiti removal, and work to deal with anti-social behaviour; and secondly, focus on equality monitoring and supporting equality advocacy groups.
    - In CAH, a number of initiatives have been identified.
        - From 2018/19, additional investment was put in place to allow around 30 pupils to take hearing aids home which improves the support experienced by pupils and helps foster improved educational outcomes.
        - The Foster Care service has been enhanced by introducing Staying Put Allowances to in-house foster carers to encourage care leavers to remain with their foster carers.
        - A Fostering Plus scheme has been introduced to develop an alternative to placing children with more complex needs with Independent Fostering Agencies.

51. To support the establishment of the Aerospace Bristol Museum, the council secured grant funding for the development and provided a short term loan of £1,000k to assist with capital investment of the site. The loan accrues interest at a commercial rate and is due to be repaid in full on 31st March 2019. They also received financial support from a private sector loan provider of £1,500k through guaranteeing bank overdraft and loan facilities. This too is due to be repaid in full on 31st March 2019. Aerospace Bristol have contacted the council to advise that repaying the loan in full would place the charity in significant financial difficulty, potentially impacting upon its long term viability, and requested a 10 year loan extension. On the basis this is approved by council, a revised loan agreement would be drawn up requiring annual instalments of £100k plus interest at 4% above the base rate (currently 0.75%). The agreement will be made on the basis the arrangement made by Aerospace Bristol Museum with the private sector provider is made on an equal basis. Should this not be secured, further discussions would be necessary between the council, the museum and the private sector provider to consider the impact on the charity's sustainability.

52. The council will use the annual interest generated by the arrangement to continue to support schools visiting the museum during 2019/20 and 2020/21 (£40k per annum). Furthermore, by continuing to support the museum, the museum has committed to:
    - Learning Resources – the museum furthers its partnership with funders and other organisations, with particular emphasis on deprived areas within South Gloucestershire.
    - Usage of Museum facilities – the museum is committed to both maintaining and increasing opportunities to host major STEM enrichment and celebratory events in support of South Gloucestershire schools. Usage of the venue by the Council is at a discounted rate.
    - Outreach and Community Engagement – the museum will further its work within South Gloucestershire with young people, dementia sufferers, the socially isolated, families of forces and prisoners, young people with or at risk of mental health problems, those traditionally not engaged with the cultural heritage.
    - Provide a discount for South Gloucestershire foster carer families and placements, as well as all council employees.

Corporate Allowance

53. The Corporate Allowance was reviewed and refreshed in October 2018. At this point demographic pressures were maintained within the departmental control totals and the additional pressures were contained within the Corporate Allowance allocation, retaining a contingency across 2019/20 to 2021/22, until a budgetary increase of £812k was required to support the corporate allowance in 2022/23.

54. Since the draft budget, the future additional demand and price pressures across adults and children's services have been refreshed taking into account the current forecast position for these demand led services using best available statistical data. The demand led pressures materialising in 2018/19 have been transferred where relevant to the department to form part of its base departmental budget for 2019/20. The revised forecast price and risk pressures have been set aside in the Corporate Allowance for draw down as these pressures materialise. To meet the cost of these pressures, the general risk contingency has been reduced accordingly whilst retaining a level of contingency to manage unforeseen costs.

TABLE 7:

Corporate Allowance	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
General Risk Contingency	*1,350*	*1,750*	*1,750*	*1,750*
ECS Waste Inflation	*0*	*614*	*1,193*	*1,733*
CAH Corporate Allowance	*5,316*	*8,028*	*10,739*	*11,549*
Total Corporate Allowance - as at October 2018	***6,666***	***10,392***	***13,682***	***15,032***
Adults 2018/19 demand led forecast overspend rolled forward	2,133	2,133	2,133	2,133
Children 2018/19 demand led forecast overspend rolled forward	1,074	1,074	1,074	1,074
Adults forecast future additional demand and price pressures	4,174	6,088	7,746	10,020
Childrens forecast future additional demand and price pressures	1,043	1,476	1,951	2,456
CAH revised pressures	**8,424**	**10,771**	**12,904**	**15,683**
Less Adults demand led forecast overspend transfer to Adults MTFP	-2,133	-2,133	-2,133	-2,133
Less Children's demand led forecast overspend transfer to Children's MTFP	-1,074	-1,074	-1,074	-1,074
Revised CAH Corporate Allowance included in MTFP	**5,217**	**7,564**	**9,697**	**12,476**
ECS Waste Inflation - Held in Corporate Allowance	0	614	1,193	1,733
ECS Council Saving Programme Phasing Contingency	300	300	300	300
General Risk Contingency*	550	450	450	450
Revised Total Corporate Allowance	**6,067**	**8,928**	**11,640**	**14,959**
Net change in Corporate Allowance (cumulative) (-decrease/+increase)	***-599***	***-1,464***	***-2,042***	***-73***
Net change in Corporate Allowance (incremental) (-decrease/+increase)	***-599***	***-865***	***-578***	***1,969***

*Note - General Risk Contingency previously £1.35m in 2019/20. £1m used to fund increased CAH pressures and 0.3m set-aside to mitigate against ECS CSP phasing pressures in 2019/20.

Revised Budget Position 2019/20 to 2022/23

55. The overall position is set out in the table below:

TABLE 8:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Estimated Resources Available	217,889	210,773	215,828	219,738
Base Budget	226,658	227,866	226,698	229,331
Draft Net Expenditure - Deficit (-) / Surplus	**-8,769**	**-17,093**	**-10,870**	**-9,593**
Council Savings Programme (CSP) including Digital Programme	2,214	0	0	0
Council Transformation and Savings Programme (CTSP)	3,485	7,762	5,230	0
Revised Net Expenditure - Deficit (-) / Surplus	**-3,071**	**-9,331**	**-5,640**	**-9,593**
Contributions to (-) / from reserves	3,071	9,331	1,811	0
Revised Year End Deficit (-) / Surplus	**0**	**0**	**-3,829**	**-9,593**
Cumulative Deficit (-) / Surplus before cost pressures	*0*	*0*	*-3,829*	*-13,422*

56. Following the updates for the points raised above, the most significant being the increasing pressures arising from Children's and Adults Social Care, this table shows a budget deficit of £3,071k in 2019/20 rising to £9,331k in 2020/21. After the application of one-off funds across both years amounting to £12,402k from the Financial Risks Reserve in line with previous practice, the council can deliver a balanced budget for the next two years (assuming delivery of saving programme targets). Following this drawdown there is forecast to be a remaining balance on the Financial Risks Reserve £1,811k at 31st March 2021.

57. It is important to note that the financial plans assume a significant contribution from the Financial Risks Reserve which in turn is reliant upon the current forecast on the Business Rates Pilot and collection fund position in 2019/20 remaining stable.

58. After 2020/21 the Council sees a rising core deficit (after achievement of the savings programme targets) of £3,829k (assuming deployment of the remaining Financial Risks Reserve) rising to £9,593k in 2022/23. The impact of this core deficit will need to be considered in conjunction with the outcome of the Fair Funding Review and the changes to the Business Rates Retention Scheme which will feed into the next Comprehensive Spending Review from 2020/21.

59. It is considered that the level of uncertainty around the future funding of social care and the impact of the relative needs and resources changes to be implemented from 2020/21 represent such fundamental changes to the way local government is funded that this will need to be given due regard before further savings are considered. These pressures may potentially be further mitigated in future years if council tax referendum levels are held at current levels, and one off social care grant and/or flexibility are maintained into future years. The council will need to ensure delivery of the existing savings programmes to ensure it is in the best possible financial position to meet any challenges that arise from the national changes to local government funding.

Departmental Base Budgets and Funding

60. Taking on board the proposals set out in this report the overall budget position for the next two years by Portfolio would be as follows. This is analysed in more detail in Appendices B and C:

TABLE 9:

Net Revenue Base Budget	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Children, Adults and Health	133,923	131,277	131,006	134,414
Environment and Community Services	43,760	42,096	39,813	40,720
Chief Executive and Corporate Resources	19,562	19,813	19,954	20,452
Central Items	17,648	17,990	19,056	18,786
Corporate Allowance	6,067	8,928	11,640	14,959
Total Base Budget	**220,960**	**220,104**	**221,469**	**229,331**
Funded by:				
Council Tax	130,596	136,058	141,742	146,937
Council Tax - Adult Social Care Precept	9,891	10,088	10,290	10,444
Business Rates	46,794	44,550	44,882	43,302
Collection Fund Surplus	2,829	0	0	0
City Deal growth funding*	14,687	13,831	13,969	14,109
Improved Better Care Fund	3,561	2,246	2,246	2,246
New Homes Bonus	6,431	4,000	2,700	2,700
Winter Pressures and Social Care Support Grant Funding	2,532	0	0	0
Levy Account Surplus Draft Allocations 2018/19	568	0	0	0
Total Resources	**217,889**	**210,773**	**215,829**	**219,738**
Budget Deficit	**-3,071**	**-9,331**	**-5,640**	**-9,593**
Transfer to Financial Risks Reserve (Pilot Gain)	-5,103	0	0	0
Transfer from Financial Risks Reserve (Budget Deficit Support)	8,174	9,331	1,811	0
Net Budget Deficit	**0**	**0**	**-3,829**	**-9,593**

(Note: The Director of Corporate Resources and Deputy Chief Executive is responsible for the Central Items budget)

61. The overall MTFP is prepared on the basis of these assumptions, the contents of this report, the achievement of the savings programmes, and a Council Tax increase of 2.99% in 2019/20 followed by 1.99% Council Tax increase thereafter. These are believed to be reasonable assumptions given the current economic climate and when assessed against the risks and levels of Earmarked Reserves / General Fund Balances demonstrate that the proposed 2019/20 budget is sustainable in the short term. It should be noted that the medium term position is predicated on a number of assumptions which are set out more fully under the risk section. Appendix D shows the revised 10 year Medium Term Financial Plan.

vi. Earmarked Reserves and General Fund Balances

62. Reserves are reviewed on a quarterly basis and reported as part of the annual Outturn report to the Cabinet with quarterly updates received in the revenue monitor reports. Reserves play an important part in managing the Council's finances, and ensuring the materialisation of risks does not impact on service provision. Equally, it is important that the Council does not hold money in reserves and balances unnecessarily. A full statement of the latest reserves position is set out in Appendix F and will be revisited at year end as part of the 2018/19 Outturn report in July 2019.

63. The latest position includes the planned use of reserves to help offset in year deficits in future years in order to ensure a broadly balanced revenue budget over the next two and a half years.

64. The Chief Financial Officer advises the Council on the adequacy of reserves. In considering the level of general reserve, the Chief Financial Officer will have regard to:

- Significant financial risks faced by the Council resulting from change in policies, or financial factors predominantly outside of its control for which there is no base budget provision.
- Shocks to demand driven and income budgets.
- Policy changes in year or at short notice which could have significant financial impact on the Council.
- Unplanned events resulting from Council decisions.
- Civil emergency.
- Supporting the delivery of savings in the current economic climate.
- Any guidance or requirements by appropriate bodies.

65. Having had regard to these matters, the Chief Financial Officer will advise the Cabinet and Council on the monetary value of the required general reserve. The Council will not hold significant reserves above those required by the Medium Term Financial Plan. As at 1st April 2018, the General Fund Balances stood at £8.738m. This continues to be below the target level of 5% or £10.8m and it remains proposed that one-off underspends at the yearend are either used to replenish this reserve over a period of time to the targeted level, or used to manage the MTFP through the Financial Risks Reserve, given the risks set out later in this report.

66. As in previous years the use of some reserves, including General Fund Balances may be required to smooth cash-flows over the medium term. This is specifically the case in respect of the Council's Transformation and Savings Programme where the exact phasing of savings being delivered can change through to decision point and during implementation, even if the end target achievable remains the same. A similar situation arises in the case of the severance budget allowance where block annual allocations are being put aside which whilst sufficient over the next few years based on expected need may not match the exact timing of payments going out. Looking to the future, the Cabinet may also be required to approve the utilisation of balances or reserves to support the delivery of future savings (e.g. through one off investment requirements on Invest to Save principles).

67. The Council continues to review its balance sheet as a matter of good practice, and will release funding no longer required to revenue whilst regularly assessing accounting treatment. No revenue has been released into the 2019/20 budget.

vii. Reform of the Local Government Finance System

68. The foundations of the Local Government Finance System are in the process of being fundamentally reviewed through various mechanisms.

69. Firstly the Settlement Funding Assessment, which is the revenue received by local authorities in the form of Revenue Support Grant from central government and the share of business rates retained locally, is subject to the forthcoming Spending Review in 2019 following the end of the 4 year Settlement. It is also subject to the Fair Funding Review, which is looking to set new baseline funding allocations for local government considering relative need, relative resources (those raised locally) and transitional arrangements (damping). The government's current timeline is that a new funding mechanism for local government will be used from 2020/21; this is likely to impact on the future financing of the council although it remains too early to project in the MTFP what this will mean. Government have indicated this will now be a move to 75% local retention at a national level, rather than the full 100% previously discussed.

70. Secondly, the Business Rates Baseline is due to be reset, which if fully reset could see all previous local growth redistributed across the country. Current indications are that Government will opt for a partial reset allowing a proportion of growth already achieved to be retained although what this looks like in practice remains to be seen. At this stage discussions are still in progress with no firm proposals for which to make meaningful financial provision at this stage.

71. Thirdly, Business Rates Baseline growth is all based on local performance and economic development. This needs to be led locally and to date this council has seen the majority of its business rates growth within the City Region Deal (CRD) as has been the strategy for the region. However, there is a growing need for locally retainable growth outside of CRD to generate additional business rates income and mitigate the impact of mandatory reliefs, reductions in rateable value etc.

72. The changes briefly outlined above will be fundamental to the medium term financial planning of this council over the forthcoming months and years. Additional focus will continue to be needed in this area to ensure the council is maximising opportunities, engaging with Government appropriately and financially modelling and forecasting complex funding scenarios. In terms of the current MTFP refresh, the Council continues to assume a return to the pre-pilot Business Rates Retention System. By retaining this position, the Council is seeking to mitigate the risk of making changes for some but not all aspects of the scheme changes under discussion through the forthcoming iterations of the MTFP. It will further allow for a clear comparison between the new and old system enabling the Council to fully consider its financial position arising from the totality of the proposed changes. As the position starts to become clearer further sensitivity and scenario planning will be undertaken to understand the risks or benefits of this position to the MTFP.

New Homes Bonus

73. New Homes Bonus is a core revenue income stream for the council, however it remains subject to further potential Government reform as well as local and national performance. Both these factors make it a challenge to rely upon it as a base funding stream in the MTFP. The government has recently indicated it will explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government has indicated it will consult widely on any changes prior to implementation.

viii. Special Expenses

74. The Special Expenses scheme was consulted on with parish and town councils during 2016/17 and the results reported to Policy & Resources Committee in December 2016. At this point it was agreed to continue with the Special Expenses Scheme and the scheme is proposed to continue in 2019/20. A further review was undertaken during 2018/19 and this was reported to Cabinet in December 2018 as part of the Council Taxbase Setting Report.

75. Under the Special Expenses scheme some South Gloucestershire Council costs are charged only to Council Tax payers in areas where the services are provided, rather than being an average cost at Council Tax payer level across the whole Council area. Examples of the costs involved are: allotments, bus shelters, children's play areas, Christmas lights, community centres, open spaces, playing fields and public conveniences. Treating these costs as special expenses does not change the Council's net spending, or its average Band D Council Tax. Treating these costs as Special Expenses marginally reduces the 2019/20 Band D Council Tax for all areas, and the Special Expenses costs are then allocated solely to those areas benefiting from the specific activity.

76. The Cabinet received indicative estimates of the Council Tax Base split across the parishes for forecasting purposes covering 2020/21 to 2022/23 in December 2018. These took account of the assumed growth in the overall South Gloucestershire tax base (2% in 2020/21 and 2021/22, and 1.5% in 2022/23) and split the growth across the parishes based on the changes in a parishes tax base over the last 3 years. The impact of the fluctuations arising from the Local Council Tax Reduction Scheme on the historic methodology used had resulted in a handful of parishes' indicative figures demonstrating negative growth. To address this, the methodology has been revised focusing on sharing the net annual growth in line with historic growth trends. As a result, revised indicative individual parish tax bases are shown at Appendix I for 2020/21, 2021/22 and 2022/23 and referred to in the recommendations.

77. Appendix H sets out the details of the amounts of Special Expenses split by service and area. Appendix I sets out the Special Expenses Council Tax charge for each area where Special Expenses apply.

ix. West of England Combined Authority (WECA)

78. Since WECA was established in 2017, in addition to the £30m per year from the devolution deal, it has secured the following added investment for the region:
    - £103m for transport
    - £5m to trial superfast 5G networks
    - £4m for the Future Bright skills programme
    - £46.4m from our business rates retention*
    - £3m to progress housing development and attract additional funding (plus a further £250m bid in to Government)

- £5.7m to improve roads
- £17.6m to invest in adult education
- £2.8m for a new Energy Hub and Low Carbon Fund
- £1.35m to support the region's creative sector
- £2m to run the Combined Authority and deliver its ambitious plans for the region.

** 100% of business rates are kept in the region – 5% to WECA, 94% to council and 1% to fire service*

79. This additional investment is helping to deliver against the ambition to drive clean and inclusive growth across the West of England, and to take positive action to address regional challenges. The council continues to work closely with WECA to progress and secure economic growth and regional development through effective engagement at both an officer and member level.

80. The Budget for WECA will be set on 1st February 2019 by the WECA Committee – at the time of writing the budget assumptions set out below are based upon the WECA Budget proposals and are subject to the outcome of the above meeting.

81. The following elements of the WECA Budget and medium term financial plan have therefore been incorporated within the Council Budget proposal:

- Capital Grant payments in respect of Highways Maintenance and Transport Improvement funding will continue in line with the 4-year allocations provided indicatively by DfT covering 2017/18 to 2020/21. The total allocation for the Council is £6,216k including £851k for the highest level of incentive grants which is automatically provided for Mayoral Combined Authority areas.

- Appropriate commissioning payments from WECA to the Council for delivery of transport activities to ensure continuity of service provision in line with the Inter-Authority Agreements (concessionary travel, community transport and bus information).

- Contributions to WECA from the Council (from existing budgets) to meet the Levy for costs of associated transport functions (concessionary travel, community transport and bus information). The basis of the Levy remains in line with the Councils estimated share of costs and is set at £2,566k for 2019/20.

- Within the Business Rates Collection Fund to continue to provide for an appropriate share of Business Rates to be allocated to the WECA in accordance with the 100% Business Rate Retention pilot to meet the costs of Highways Maintenance and Transport Improvement Grants (this does not impact on the Council's significant benefits from participation in the Pilot).

- Grants funding received from the WECA for feasibility studies and business case development for infrastructure schemes including the 'Love Our High Street' project for which the Council has prepared a package of pilot schemes for Kingswood, and the feasibility works on a strategic Joint Spatial Plan scheme in South Gloucestershire (£200k). These are funded from the additional investment funds received by the WECA as part of the devolution arrangements and reflected accordingly with the Councils revenue and capital budget proposals. Further bids for infrastructure funding may be made in line with the WECA Strategy and Assurance Framework and may come forward for inclusion in the capital programme in line with future delivery arrangements.

- The continuation of the reduction of £40k against the Council's annual contribution of £150k towards the running of the LEP/WoE Office reflecting the efficiencies that have been achieved though integrating these arrangements with WECA including the accountable body role for the significant WoE Growth and City Deal funds.

82. The WECA is not permitted to raise a Council Tax to fund any of its activity and therefore no precept will be requested.

83. The Council will continue to work with the WECA to identify opportunities to deliver efficiencies and savings particularly relating to transport and infrastructure functions.

84. Full details of the WECA Budget proposals are available at www.westofengland-ca.gov.uk

Consultation

85. This report contains the outcome of the public consultation process on the budget and the Local Council Tax Reduction Scheme proposed changes. A summary of this is found at Appendix A. The Scrutiny Commission budget task group has also reviewed the MTFP, and the main Scrutiny Commission will consider the papers ahead of the Cabinet meeting. Any feedback from these reviews will be fed back to cabinet for their consideration at the meeting.

Equality Impact Assessment

86. A comprehensive Equality Impact Assessment and Analysis (EqIAA) has been conducted in respect of the Council Revenue Budget and is provided as a background paper. The EqIAA has been continuously developed year-on-year and examines data and information covering a 6 year period; as such, it covers a wealth of information and highlights significant trends in respect of Protected Characteristic groups. This information should inform the decision making process - the Council is reminded of its statutory duty, in the exercise of its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act 2010, advance equality of opportunity between persons who share a protected characteristic and persons who do not share it, and foster good relations between persons who share a protected characteristic and persons who do not share it.

87. This year specific feedback has been received in response to consultation concerning race equality in education. This feedback has been fully considered as part of the Schools Budget EqIAA and as a result a specific action plan to address the issues raised has been developed and is shown in Section 5 of the Schools Budget EqIAA.

88. Changes to services through the Council Savings Programme and similar projects have been subject to separate decisions which have properly

discharged the Public Sector Equality Duty. Future decisions will continue to follow this practice.

Risk Assessment

Financial Implications

89. There are a range of safeguards in place to help prevent local authorities over committing themselves financially. The two main requirements are a duty on the Council to set a balanced budget requirement (sections 32, 43 and 93 of the Local Government Finance Act 1992), and the Chief Finance Officer's duty to report on the robustness of the budget estimates and the adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.

90. The principal way of demonstrating that the budget balances and is sustainable into the immediate future, is through the detailed budget proposals set out in this report. The Medium Term Financial Plan set out in Appendix D shows a 10 year period that indicates the budget is balanced in 2019/20 and 2020/21, on the basis of the achievement of the current savings programmes, use of reserves, and in anticipation that additional resources will arise from the Council Tax annually, but that further savings may be required from 2021/22 onwards to balance the budget, the quantum of which will be dependent on the outcome of changes to the Local Government Finance System. The savings required in the immediate period remain challenging and the MTFP seeks to take account of the most likely profiling of delivery.

91. The 'excessive' amount for basic council tax has been confirmed as 3% for 2019/20 following the Provisional Local Government Finance Settlement with no further increase possible for the council to raise additional adult social care precept. Should a council wish to exceed this prescribed amount, as part of its budget setting process it will be required to set two budget requirements, one of which would be based on its proposals to exceed the threshold, and one where it did not exceed the threshold, and go out to public referendum.

92. The revenue budget proposals set out in this report take account of the capital financing requirements associated with the existing proposed Capital Programme 2019/20 and onwards (unless otherwise stated in that report) being considered by the Cabinet also on this agenda. This would need to be revised if further changes to the Capital Programme are recommended to the Council by Cabinet. It is important to note the linkages between the capital programme, treasury management reports, and the revenue budget. In particular, any increase in capital financing or other revenue costs above that assumed in the revenue budget would need to be covered by virement proposals.

93. The MTFP includes forecasts of both business rates income and the tariffs payable to government. With the level of uncertainty being faced in terms of the future of the business rates system fluctuations in net business rates income may occur as technical adjustments to the financial forecasting and modelling once assumptions made are firmed up. Work will continue over the

forthcoming financial year to model the financial implications of the changes including undertaking sensitivity analysis. Updates will be brought back to Cabinet as more information is made available by government. A further level of uncertainty arises from the volatility in business rates income, much of which is outside of the control of the council. This can include increases in mandatory reliefs for which the council is not compensated by government e.g. charitable relief, business premises being added or removed from the ratings list by the Valuation Office Agency (VOA) and changes in rateable value by the VOA.

94. The Council also has a fiduciary and statutory duty to the Council Tax payers of the area to obtain value for money. The Council continues to demonstrate value for money through the delivery of good quality services matched against comparatively low levels of external funding. The Council Savings Programme continues to play a key part in demonstrating the on-going delivery of value for money services.

95. At the time of despatch of this report the final Local Government Finance Settlement had not been received, nor a number of specific grants. As a result of this the final figures are likely to change and an update will be provided to the Cabinet setting out the latest position if necessary. It is also recommended that the Director of Corporate Resources be given delegated authority to make technical changes to the report if required ahead of final despatch to Council.

Nina Philippidis – Deputy Head of Finance, Revenues & Welfare - 01454 865140

Legal Implications

96. The main legal requirements in setting the budget have been set out under the financial implications section and there are no additional legal implications arising.

John McCormack – Head of Legal, Governance and Democratic Services – 01454 865980

Human Resources Implications

97. This report sets out continuing requirements for savings as part of the revised Council Savings Programme and Digital programme. Decisions taken within the programme of reviews have the potential to have significant impact on the Council’s workforce and any future change not yet at decision stage is also likely to impact on the workforce. Robust workforce change procedures have operated successfully during the first phases of the Council Savings Programme and these will continue through the subsequent phases and any future organisational change where there is a significant impact on staff. The Human Resource implications associated with each change project will continue to be clearly defined within Cabinet / Executive Member / Director Reports and Trades Union/staff consultation documents.

98. The Council is under a statutory requirement to approve its Pay Policy Statement on an annual basis. Council first approved this Statement in

2012/13. Appendix J sets out the Statement for 2019/20. Data has been updated and the reward principles revised.

Claire Kerswill – Head of Human Resources – 01454 866348

Environmental Implications

98. The report sets out the current economic climate in which the Council has to balance a complex budget situation. The Council's Capital Programme continues to include the Schools Energy Savings Programme and Renewables/Solar projects, which will both contribute towards energy savings and to the delivery of the South Gloucestershire Climate Change Strategy 2018-2023.

Lucy Rees – Senior Environmental Policy Officer & Climate Change Officer – 01454 862224

Social Implications

99. There are broad social implications to the council, its residents, communities and businesses that arise depending on the spending decisions made. This report tries to balance the financial pressures on the Council with the demands and suggests a way forward. Detailed decisions that will arise from the recommendations in this report will need have any social implications carefully considered at that time.

Mark Pullin, Strong, Safer Communities Manager – 01454 868480

Economic Implications

100. There are no direct economic implications arising from this report.

Antony Merritt, Economic Development Manager - 01454 863870

Privacy Impact Assessment

101. There is no direct requirement for a Privacy Impact Assessment to be undertaken.

Risks, Mitigations & Opportunities

102. The Chief Financial Officer has consulted with Directors, and reviewed the Council's Risk Register. There are considered to be six main risks to the 2019/20 budget. These are set out in the table in Appendix G.

103. A number of these risks relate to the medium term, and there is insufficient detail to quantify their size, likelihood or impact at this time. However, it is critically important that to mitigate these risks, the Council continues to proactively monitor and review its Medium Term Financial Plan and planning assumptions to ensure future changes can be appropriately prepared for and managed. Similarly, whilst it is highly unlikely all these events

would occur at the same time, the Council must continue to hold and plan for appropriate levels of General Fund Balances to manage such risks in the short to medium term. In a worst case scenario the budgetary risks could easily equate to over £30m (over three times current general fund balances), but even taking more realistic risks around the Council's Transformation and Savings Programme, forthcoming savings pressures and City Region Deal infrastructure investment, General Fund Balances would only see the Council through a one year material shock.

104. Many of the savings for future years included within the departmental programme plans at Appendix E will require a full business case to be drawn up before they can be confirmed. Some of these may require additional revenue or capital investment to deliver. This additional investment has not been quantified in detail unless specifically stated, although some allowance has been made in the MTFP as set out earlier in this report.

105. During 2018/19, the West of England Combined Authority has been making significant infrastructure investment decisions based on the priority needs of the locality in line with the original intention of the combined authority and its awarded powers. The council will need to consider its scrutiny of such proposals and ensure it has robust processes in place to capture the revenue running costs of such investments e.g. Metrowest 1 to ensure that it is not left exposed to ongoing costs subsequent to the decision to invest being made. A full business case assessment jointly between the local authorities and WECA will be necessary to mitigate the risk of unfinanced revenue exposure.

106. The proposed revenue budget continues to include budgetary provision for the estimated running costs of the original North Fringe to Hengrove MetroBus together with funds for MetroWest Phase 1, which is currently capped at 5% or £50k per annum, because the Council has only a small stake in Phase 1 (Severn Beach service enhancements). Any changes to phase 1 could lead to different cost profiles which would need to be considered at that time. MetroWest Phase 2 is led by the Council and costs shared with Bristol City Council currently shared 78%/22% respectively. It should be noted that both MetroWest projects are likely to require a period of train service revenue support, up to 3 years following start of services, which will need to be met in due course. Officers are continuing to review the funding package for this revenue support, which for the Council includes use of S106 funding. The revenue budget for the estimated running costs for the Cribbs Patchway MetroBus Extension will need to be considered in due course alongside the future decision by Cabinet to consider moving forward with the construction phase of this scheme once the Full Business Case is completed.

Robustness and Sustainability Implications

107. The Chief Financial Officer (Director of Corporate Resources and Deputy Chief Executive) is required by section 25 of the Local Government Act 2003 to report to the Council on the robustness and sustainability of the estimates in the budget report, and on the adequacy of the reserves and balances. The Council is required to take these comments into account when making its budget and Council Tax decisions.

108. The Chief Financial Officer has assessed the balance of risk and the associated mitigating actions, as set out earlier in the report, and considers, on this basis the budget for 2019/20 to be robust. It is noted that this is based on the overall level of savings being delivered, provisional current year budget and Collection Fund position, and the mitigating actions being put in place as set out in this report should this not be possible. The risk paragraphs and appendix of this report cover the mitigation action that has been taken, and the provision that exists to manage any in year residual risk that may materialise. Of specific note in respect of the robustness judgement for this year (as last year), Members' attention continues to be drawn to the assumptions around the additional risk posed to budgets resulting from decisions not being taken on the savings programmes, and business rate growth/appeal risk from 2013/14 onwards, and the potential consequent requirement to call on reserves and balances. Additional risks will arise in the medium term and will be kept under review, especially in relation to the new Savings Programme, and adults and children's demographic cost and price pressures. As set out earlier in the report, there is a real prospect the Council may need to call on General Fund balances to meet these additional costs if they are in excess of the centrally held Corporate Allowance set aside and mitigating action cannot be taken by Departments. In such a case this would only provide temporary support as reserves can only be used once. Some of these pressures could be mitigated as a result of decisions taken by Members in year following proper consultation.

109. In coming to the conclusion that the proposals are robust, the Chief Financial Officer has placed weight on the budget process that has been followed in the development of the budget, and the assurances provided by Chief Officers which they have brought to the attention of Cabinet where material. In this respect, it is noted that:

- The 2019/20 budget process started on 2nd July 2018 with the Cabinet setting the assumptions on which the base budget was to be developed. All departments were engaged over the summer period on the development of base budgets which have been produced by the corporate finance team associated with each department in conjunction with the department's officers who have had chance to agree the base budgets.
- During the development of the proposals, known pressures that have advanced during the course of the year have been considered, underlying spend profiles considered by departments, and appropriate projections of future budgetary requirements, including demographic and price growth have been undertaken.
- Organisational capacity has been assigned to the development of savings programmes, including the setting aside of investment and severance provision funding. A robust governance framework has been developed to support the delivery of savings.
- The proposed budget has been informed by a budget consultation, and is in line with the themes of the Community Strategy.
- The proposed budget complies with the latest available guidance about the requirement to hold a Referendum if the proposed Council Tax increase were to exceed a prescribed percentage.
- The Council continues to face significant budget pressures, especially across its demand driven budgets. These have been successfully mitigated during the course of this year at a council wide level. Additional funding has been allocated

for adult and children's social care demographic and price growth next year, and the current projection, notwithstanding these pressures, is for a balanced budget over the next two years on the presumption that identified and planned savings targets are delivered, but noting this is being achieved by the use of reserves or other one off funding which would not be sustainable into the medium term.

- The Council's Transformation and Savings Programme has been considered in more detail over the course of 2018/19 with initial updates to Cabinet in July 2018 and a revision of savings profiles in October 2018. This report includes further refinement and includes details of the departmental savings programme plans at Appendix E.
- The School Balances reserve will reduce if schools continue to rely on their one-off school reserves to balance their budgets and more schools convert to academies. Should schools balances be fully depleted there is a risk that financial support will fall on the council's own general balances. This risk is being monitored through the Schools in Financial Difficulty group and further updates will be brought forward over the course of 2019/20 as required.

110. The key budgetary risks have been considered and brought to Members' attention. These are set out earlier in this report and during the course of the year, with any associated mitigating action.

111. It is recognised that the current economic climate and policy environment is unprecedented, and this brings significant risks that have been outlined in this report and the Council's Risk Register. As a result of this, risks need to be carefully balanced, and an assessment made about which risks have such certainty they can currently be planned for, and for any remaining risks, the levels of reserves and General Fund Balances are such that they can be mitigated in the immediate future should the need arise in year.

112. The Chief Financial Officer asks Members to note that the delivery of the savings targets set out in the budget as part of the Medium Term Financial Plan is critical in ensuring the continued robustness and sustainability of the budget. Whilst decisions have been taken on some of the savings programmes, there still remains implementation and delivery risk, and the CTSP, in some areas, will require further development, planning and decision making which represents an inherent risk to the MTFP. This is outlined in Appendix E. Any savings proposals not accepted through options development will need to be replaced with alternative efficiencies/savings, or the generation of additional income by Departments, to ensure the Council maintains a balanced budget. This will be the responsibility of Departments in the first instance to develop.

113. Further savings are still required towards the end of the MTFP 4 year period and as set out in the 10 year Medium Term Financial Plan Appendix D. The level of budget savings required moving forward will be considered in light of proposals made to the new local government finance system during 2019/20 for implementation from 2020/21 onwards. At a very high level, a 1% change arising from a change to the local government finance system would reduction on the MTFP by around £500k.

114. It is noted that the budget set out in this report for 2019/20 is still based on the announced provisional grant figures, that some specific grant amounts

remain unknown, and assumes a Council Tax increase of 2.99% in 2019/20. Members' attention is drawn to the fact that a number of figures within the 2019/20 budget projections will require further confirmation over the next twelve months, including an assumption around the future Council Tax Base growth and the related impact of business rate changes as part of the pilot. Similarly the Business Rates growth assumptions need to be kept under review and the phased impact of the City Region Deal. Given this, and the current call on reserves to balance, Members should continue to make efforts to balance the budget in 2021/22 onwards without the further use of reserves to further mitigate these risks.

115. The level of Earmarked Reserves has been reviewed and is considered to be appropriate for the risks faced. The level of General Fund Balances at the start of the year is just under £9.0m. The policy on General Fund Balances was set out earlier in this report.

116. The combination of the centrally held Corporate Allowance, Earmarked Reserves and General Fund Balances is considered to be proportionate and adequate when assessed against the balance of identified risk for next year. However, given that the Council has no control over business rate appeal risk, and given the known number of appeals currently lodged with the Valuation Office, these could pose a considerable risk to budgets and reserves in the short to medium term.

117. The Chief Financial Officer's conclusion therefore is that the proposed revenue budget for 2019/20 is robust based on the criteria set out above and that the budget is sustainable in the short term, but it is exposed to a higher level of risk due to external factors than has been experienced historically. This risk is further increased as a result of the size of the Savings Programme targets and the remaining core deficit still to be found, together with a high degree of uncertainty remaining over any future local government finance system. However, through a combination of the centrally held Corporate Allowance, Earmarked Reserves and General Fund balances, the budget provides adequate protection against the risks identified in this report in the short term. This allows time for future corrective budgetary actions to be taken should they be required as a result of the new and emerging financial risks faced by the Council. These could be fundamental to the future shape and nature of the Council and could place medium to long term risk on the future financial sustainability of the Council. A key determinant in this will be the outcome of the national local government funding review.

Reasons for Decision

118. The Council is required to set its budget by 10th March 2019.

Author

Dave Perry, Director of Corporate Resources and Deputy Chief Executive
Tel: 01454 865001

Departmental Contact

Mike Hayesman, Head of Finance and Customer Services
Tel: 01454 865290

Nina Philippidis, Deputy Head of Finance, Revenues & Welfare
Tel: 01454 865140

Background Papers

1 Report to Council on 14 February 2018 - Revenue Budget, Special Expenses and Council Tax 2018/19 to 2021/22
2 Report to Council on 14 February 2018 – 2018/19 Council Tax Setting
3 Report to Cabinet on 2nd July 2018 – 2019/20 Base Budget Assumptions
4 Local Government Finance Act 1992
5 Local Authorities (Calculation of Tax Base) Regulations 1992 No. 612
6 Local Government Changes for England (Calculation of Council Tax Base) Regulations 1994 No. 2826
7 Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 No. 2914
8 Council Tax Base records held by Finance and Customer Services
9 Local Council Tax Reduction Scheme – Council 10 December 2014
10 Documents on the Special Expenses and Local Council Tax Reduction Support Grant consultations
11 Review of Council Tax Reduction Scheme papers held by Finance & Customer Services
12 Full EqIAA – Council Revenue Budget 2019/20
13 Budget and Council Savings Plan 2019/20 Consultation Output Report
14 Final Capital Programme Report 2019/20 to 2022/23 – Cabinet 4th February 2019

Appendices

A. Budget Consultation Summary
B. Revenue Base Budget 2019/20 to 2022/23
C. Policy Base Budgets 2019/20
D. Medium Term Financial Plan 2019/20 to 2028/29
E. Council's Transformation & Savings Programme
F. Earmarked Reserves
G. Budgetary Risk Assessment
H. Recommended Special Expenses 2019/20 to 2022/23
I. Special Expenses by Parish Area 2019/20 to 2022/23
J. Pay Policy Statement 2019/20
K. Revised Local Council Tax Reduction Scheme 2019/20
L. Care Leavers Council Tax Exemption Scheme 2019/20
M. Business Rates Retail Relief Scheme 2019/20