APPENDIX 3

FINANCIAL PLANNING FOR 2020

OVERVIEW

Whilst the move to Future Council is not driven by the funding position of the Council, the development of a Medium Term Financial Strategy (MTFS) is a key document in identifying how the Council will align its existing and future resources to the agreed priorities underpinning Future Council.

Alignment of resources to priorities is particularly pertinent in the context of diminishing resources that the Council has faced and will continue to face over the next 3-4 years.

The MTFS will drive our ongoing financial strategy and provide the current position regarding the Authority's revenue and capital resource availability and its current spending and resource plans over the medium term.

The document clearly identifies the extent to which actual and projected resource levels currently vary from the approved and anticipated spending plans. It identifies the need / timescales for corrective action by way of either generating additional resources or paring down spending plans (or some appropriate combination thereof).

The MTFS supports ongoing decision making processes and is the bedrock for ensuring all new investment decisions accord with our priorities.

Barnsley has suffered extensive cuts over the last 7 years. It has received a draft settlement for 2016/17 to 2019/20 which shows further cuts in revenue support grant of £32m. Since 2010 it is estimated that Barnsley's RSG has fallen by some £79M (equating to a 46% cash cut).

The Government has announced as part of the recent Budget that there will be further cuts in public spending of £3.5bn in 2019/20 but without any detail of how this may impact on the current funding settlement.

In addition, the Government has previously indicated that it will undertake a review of the current system of Local Government Finance with the intention to move to one that includes full localisation of Business Rates and potentially new duties to be provided from the additional funds. The intention is that this will be in place by 2020.

Finally the recent referendum decision on BREXIT creates further financial uncertainty over the next 2-3 years as the Government determine how they terminate the current relationship with the EU and its obvious subsequent impact on financial markets.

Amidst this unclear financial landscape, the Government have offered local authorities a 4 year settlement through to 2020. This is predicated on each local authority submitting an efficiency plan to Government by October 2016. Government have stated that they will not be expressly prescriptive in this regard and limited guidance received to date indicates that it will need to make clear:-

1. Why the local authority will benefit from a 4 year settlement;
2. How an Authority intends to use its reserves;

3. How it will interact with its neighbouring partners especially in relation to any devolution deals.

Although this MTFS contains much of the information to support such an efficiency plan, a separate Plan has been developed to ensure that we can demonstrate clearly meeting the requirements to enable us if we so wish to accept the 4 year offer.

The key benefit of accepting the offer was to provide a fixed settlement for the 4 years to assist in financial planning for Local Authorities over a very difficult period. However given the outcome of the referendum, it remains a risk that the Government may need to consider more austerity measures and remove the offer going forward.

CURRENT RESOURCES POSITION

REVENUE

Forecast as at January 2016

As part of setting the 2016/17 budget, a medium term forecast position was identified based on certain assumptions at that time.

That showed for the next planning period a Gap of £28.1m as set out below with the potential for a further £7.2m in a future planning period.

	2017/18 £m		**2018/19 £m**		**2019/20 £m**		**Total £m**
Base Budget	168.3						
Expenditure Increase in Costs	+4.46	***+4.46***	+4.55	**+4.55**	+4.66	***+4.66***	**+13.67**
Income Increase in CT Increase in BR Reduction in Grant	 -1.39 -0.52 +9.30	***+7.39***	 -1.39 -1.30 +6.24	**+3.55**	 -1.39 -1.40 +6.27	***+3.48***	**+14.42**
Gap		***+11.85***		***+8.10***		***+8.14***	**+28.09**

This forecast has now been updated to include the latest information and a review of key assumptions as set out in the paragraphs below.

Business Rates Retention scheme

As indicated earlier, the current BRR scheme, the ongoing stringent cuts to local authorities and proposals for further changes makes it difficult to predict future resources within the current planning period. At the moment the key assumptions underlying the Medium Term forecast are that:-

- There will be no net growth in overall Business Rates in 17/18 which reflects the current position;
- Business rate growth from 2017-18 will rise in line with inflation (currently assumed 2% per annum) to reflect the multiplier that the Government applies to the calculation;
- Future government cuts for the period 2017 -20 at the levels already indicated in the 4 year 'deal.'

Government grant and Business Rate 'local share' will make up some £60.0m of budgeted income in 2017/18 and any change to these budgets has a major impact. There is a great deal of volatility to these budgets (see Risk Assessment later in the document) and clearly these assumptions need to be regularly reviewed.

Council Tax

The revised projections in the updated forecast reflect the national context that the Government has set for Council Tax increases.

The Government's previous Council Tax Freeze Grant is no longer available from 2016/17; however they have continued to limit the level of future Council Tax increases by requiring local authorities to carry out referendums above a certain level of increase – the referendum threshold set by the Government for 2016/17 was 2%.

As part of the 4 year settlement the Government also announced that they would allow Authorities with Adult Social Care responsibilities to raise Council Tax by a further 2%. The resources raised have to be ring fenced to fund adult social care.

Barnsley took advantage of this additional 2% tax in 2016/17 and whilst no decisions have been made at this stage, for illustrative purposes future increases in Council Tax are based on annual increases as follows:-

2017/18 3.9%
2018/19 2.9%
2019/20 2.9%

This takes account of future inflation trends as well as Adult Social Care responsibilities and is also mindful of the Secretary of State's ability to determine CT increases before a referendum is required.

Following a review of the Tax Base/ Collection Fund, it has been identified that at this stage it would be prudent to increase the forecast over the planning period by some **£7M** as outlined below:

2017/18 £m	2018/19 £m	2019/20 £m	Total £m
-4.5	-1.3	-1.2	**-7.0**

The estimates for Council Tax Income are based on a collection rate of 95% and reflect the impact of the local Council Tax Discount scheme (introduced in 2013/14) and anticipated collection rates.

Maximising Revenue Resources

There are no assumptions made in the forecast in relation to the potential increase of existing charges or new income streams over the planning period. As part of the forthcoming planning process, consideration will be given to maximising revenue resources, in particular the reviewing of current levels of fees and charges and the potential for alternative sources of funding. Such increases will be included within the proposals that will come forward to Members for consideration.

However, research on new funding streams will focus on the areas that will support the priority outcomes rather than any funding that may be available for new initiatives. Work will continue on identifying current 'gaps' in funding and managing the overall resources of the authority through, amongst other activity, lobbying alongside SIGOMA and active treasury management policies.

Relationships with Neighbouring Partners/ Devolution Deal

A key source of funding relates to grant that has been allocated to other partnership groups. For the future we need to have a strong focus on accessing resources that will become available through the Sheffield City Region in which Barnsley is a key player.

A separate piece of work is currently being undertaken to identify and influence a new approach for the prioritisation of investments that will attract funding from these available resources and may also lever in additional resources (ie private/ third party contributions).

In addition, the Government has announced further resources being made available from 2017/18 through the Better Care Fund. Discussions will need to take place with the CCG to ensure that these additional resources are used to support priority areas.

CAPITAL / ONE OFF RESOURCES

The overall national economic position has also impacted on the level of capital resource available for investment with significant reductions in Government allocations in recent years.

Within the Authority, Government allocations can be supplemented with contributions from outside organisations, revenue contributions from the Authority's own base budget and the use of operating lease facilities.

In addition, under the Prudential Framework the Authority is permitted to undertake additional borrowing to fund capital investment provided that the Authority can demonstrate affordability, prudence and sustainability in its investment decisions.

The Medium Term Forecast at this stage assumes that some £5m of prudential borrowing will be available each year, however for 17/18 this resource has already been allocated to the Town Centre Scheme and Jobs and Growth Plan agreed as part of the 2014/18 Reserves Strategy. The scope for any additional capital investment remains limited throughout the planning period and will therefore be dependent on:-

- the priority given to capital schemes in relation to ongoing service expenditure;

- the scope for generating additional capital receipts that are not required for existing commitments to support the Medium Term Financial Strategy;

- the ability of the Authority to harness additional resources for capital investment during the period of the MTFS from new initiatives and external sources.

A 5 year disposal programme (2013-2018) has been established and approved by Cabinet in order to identify potential future receipts to support the Council's MTFS and this is also in the process of being updated for 2020. However given the current volatility in the property and banking sectors, it is difficult to forecast future receipts with any degree of certainty. As such, the markets will continue to be monitored to determine appropriate times for any assets to be disposed of.

EXPENDITURE

As part of the 2016/17 Budget Process a number of potential pressures for the forthcoming planning period were identified but not fully quantified. In addition there were also some key areas of expenditure as well as full year impacts of agreed savings that were not built into the forecast at the time.

A full review of corporate base budgets has been undertaken and potential pressures 'firmed' up and these now require inclusion within the updated forecast. Consideration of how these pressures will be addressed will be considered as part of the development of the process to deliver the plan for the next 3 years.

Reductions in Base Spend

A review of base budgets has identified resources that can be released in support of the ongoing financial plan totalling **£3.0M.** These relate to provisions no longer required at the same levels as in previous years, eg. Downsizing costs which have also been funded through one offs.

Full year impact of savings already agreed

As part of the previous 2 year budget, members agreed a number of savings whereby there is a full year impact in 2017/18. It is appropriate therefore that these adjustments are made to our budgets going forward totalling **£0.45M**.

Change in MRP Policy

As part of the ongoing work to identify options for savings from our debt portfolio, a significant piece of work was undertaken to determine a new but prudent approach to how we charge our debt repayments in our accounts.

Members received a report on the proposals in early 2016 and approved the revised policy for implementation within the 2015/16 accounts and future years. Our updated Treasury Policy and Strategy reflects this position.

This change in policy has delivered significant savings of **£12M** towards our 2020 Financial Plan.

Introduction of the Living Wage

Following the announcement by the Government of the introduction of the National Living Wage, an assessment has been made of the impact of that increase, both for our own employees, but also for our service providers where there is a significant risk that this will increase our costs in future years. Although work is underway to try and minimise any impact, at this stage it is prudent to provide for the anticipated increases totalling **+£3.5M**

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**Total £m**
Base Budget Reductions	-3.00	-	-	**-3.00**
Full year impact of savings	-0.45	-	-	**-0.450**
MRP changes	-9.80	-2.20		**-12.00**
Living Wage Costs	+1.80	+1.70	-	**+3.50**
Total Changes to Forecast	**-11.45**	**-0.50**	**-**	**-11.95**

Service Pressures Identified

The budget monitoring reports during the 2015/16 financial year and the final accounts have highlighted areas where unless some other actions are taken they are likely to remain under pressure as we move into the planning period for 2020.

In addition, the first quarter monitoring for 2016/17 has highlighted further pressures within Place around home to school transport and recycling income.

Directorates have considered these in detail and it is necessary that these need to be included in consideration of how we realign resources going forward. Mitigations are still being considered and further challenge will be given prior to final agreement as part of the plan for 2020.

Service	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**Total £m**
Adult Social Care	3.08		-	3.08
Children's Social Care	2.90	-	-	2.90
Place	0.90	-	-	0.90
Communities	0.16	-	-	0.16
Public Health	1.41	-	-	1.41
Legal	0.07	-	-	0.07
Electoral	0.11	-	-	0.11
Total	**8.63**		**-**	**8.63**

Other Issues

There is also a need to consider other efficiency measures that could result in further reductions in expenditure in the future, particularly around terms and conditions such as pay protection and increments.

All potential options are currently being considered and quantified and have the potential to reduce the overall gaps looking ahead to 2020.

FORECAST & UNDERLYING RISKS

Current Assumptions underpinning the Forecast

The Medium Term Financial Forecast is based on the financial plans for the period 2017/18 – 2019/20 taking account of the changes in assumptions outlined in the previous sections. The forecasts through necessity also make certain forward assumptions that will need to be firmed up during the year. The main ones being:-

- Pay awards currently based on a 1.0% increase each year.
- Contract inflation for major contracts;
- Funding for revenue costs of financing annual prudential borrowing for key priority schemes of £5m;
- No material changes from the actuarial revaluation;
- Council Tax increases of 3.9% pa in 2017/18 and 2.9% thereafter;
- RSG to reflect the Governments' 2016/17 draft 4 year settlements.

It should also be noted that there is no additional provision for any future Demographic pressures/ investment requirements over and above those outlined in the previous section or already mitigated by Directorates and to the extent that any are required, further savings will need to be identified to compensate.

Medium Term Financial Forecast

The current long term financial forecast is based on a prudent interpretation of the best information available. The previous sections have outlined the assumptions made in assessing resources and expenditure projections, however it is vital that this forecast is regularly updated to take account of developments in the Authority's circumstances and the evolving national picture.

The current position based on; the 2016/17 approved budget; investment agreed to date; estimated additional unavoidable investment and updated assumptions is shown at Annex 1. This highlights the potential gaps, assuming that permanent annual expenditure reductions are implemented to address the gaps of:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**Total**
Potential Gap	+4.551 *	+6.359*	+6.889*	**+17.799***

*Includes Council Tax increases of 3.9% in 2017/18 & 2.9% thereafter.

It should be noted that to the extent that permanent net expenditure reductions are not made to address the annual gaps, this will impact on the position up to the maximum levels.

Moreover the 2016/17 budget was agreed on the basis that permanent KLOE savings of £9.9m would be implemented during the year. Non achievement of these will increase the potential gaps in future years.

Risk Assessment and Sensitivity Analysis

A sensitivity / risk assessment of the 2017/18 Forecast has been produced which clearly identifies the key areas that may have a significant impact on delivery of the Medium Term Financial Strategy. A copy of this is attached at Annex 2 for information.

The sensitivity analysis for the Medium Term Financial Forecast considers, based on the risk assessment, the potential variation in the assumptions and their impact on the forecast. This is summarised below:-

	Forecast £m	**'Worst Case' £m**	**'Best' case £m**
2017/18	+4.551	+11.702	+0.002
2018/19	+6.359	+14.464	+3.484
2019/20	+6.889	+12.840	+3.910

Some of the key risks underpinning the forecast (based on value) are shown in more detail below:-

Forecast Item	**2016/17 Budget**	**Comment**
Future Council Budget Reductions	-£9.9m	The scale of savings required to balance the 2016/17 budget makes this a key risk and failure to deliver will not only add to future deficits but undermine implementation planning for covering off future deficits.
Business Rates Local Share	-£25.321m	There are significant risks underpinning business rates collection including the settling of appeals (carried out by the Valuation Office which can be backdated upto 5 years) and the change in the collection of local rates as a result of new businesses, the closure of existing ones and/or a change in status (eg gaining charitable status which academies fall under).
Revenue Support Grant	-£34.560m	RSG has been the biggest single grant that Barnsley has received. The government have already provided a draft settlement until 2019/20 that will result in RSG reducing to some £12.7M. The government has also made it clear that by 2020/21 RSG will be replaced by localisation of the remaining 50% of business rates
Council Tax Increases	-£78.013m	The forecast currently assumes that there will be

Forecast Item	2016/17 Budget	Comment
		Council Tax increases of 3.9% in 2017/18 and 2.9% thereafter and that collection rates remain stable.

This clearly identifies the future funding of Local Government as a significant key risk.

POLICY ON BALANCES

Previous budget strategies have harnessed resources outside those traditionally available to fund ongoing revenue expenditure and such an approach will continue to be considered within the Medium Term Financial Strategy where prudent.

Nevertheless it should be stressed that these resources are non - recurring and so although there is merit in using them to fund one off investments, their use to fund ongoing expenditure will not be sustainable and should be minimised in pursuit of a sustainable balanced budget.

In advising on an appropriate level there are a number of issues that need to be taken into consideration as outlined below:-

- Excessive balances can be an opportunity cost to the tax payer with additional spending on services not taking place or Council Tax increases being higher than they would otherwise be;
- Retained balances earn income and can provide internal funding for capital expenditure rather than borrowing;
- Balances that are too low may put the organisation at risk if unexpected demands appear at short notice.

The Authority has a good track record of bringing in overall expenditure below budget each year. However this is getting more difficult and the flexibility this has provided through additional balances being available to support our medium terms plans is therefore reducing.

Having assessed the increasing risks (in particular the fact that our income stream is moving from Government grant to the much more volatile Business Rates), their impact on available balances and the potential deficits moving forward, the previous policy advised by the Director of Finance, Assets and IT was that the level for the Minimum Working Balance (MWB) should be £15M which was agreed as part of the 16/17 Budget. This level takes into account the twin objectives of minimising the cost to the taxpayer whist minimising the effect on the Council of financial risk.

It is recommended that this level is maintained going forward.

Current Level of balances

The Council received a report outlining the current position on all reserves as part of the 2016/17 budget process. Following the closure of the 15/16 accounts this position has been reviewed and work has also been undertaken on the identification of significant potential calls on these one off reserves, again over the planning period in order to inform the strategy on their use.

These potential calls, need to be taken account of prior to any release of resources for priority investment to ensure a prudent approach to the overall use. There has also been a full review of all current earmarked reserves agreed as part of the previous strategy, to determine if they are still required and remain at the appropriate level. The results of this work are also included in the summary below.

RESERVES & BALANCES – POSITION AS AT JULY 2016

Available – Balances from 2015/16 Movements	**£m**	**£m**
Available reserves at Feb 2016 Budget	15.049	
Agreed Increase in Minimum Working Balances	(5,000)	
		10.049
	£m	**£m**
Additional reserves following closure of 15/16 accounts.	16.799	
Agreed Invest to Grow Fund	(3,000)	
		13.799
Review of pressures / risks		
Additional costs of Downsizing	(5,000)	
Review of Existing Earmarkings	2,000	
		(3,000)
Revenue Balances Currently Available		**20.848**

In relation to Capital Resources, the position reported to Cabinet in December 2014 showed that banked capital reserves were over-subscribed by £3.4M. This has improved by £3.2M resulting from additional receipts and transfer from the Jobs and Growth Fund. However, this still leaves a shortfall in capital resources against agreed investment of £0.2M.

However the current MTFS includes additional prudential borrowing in 2018/19 and 2019/20 of £10m that has not been earmarked for investment.

Total Capital Resources Currently Available	**9.800**
Overall Resources Available – 2017-20	**30.648**

‘Potential’ additional Resources over the planning period

It is also important that this MTFS considers the ‘potential’ reserves over the planning period 2017-20 and consider the appropriate use of these to:

1) provide adequate and prudent mitigation against future risks / unquantified pressures;

2) support delivery of key priority investments.

Work has been underway to establish a forward projection of the potential level of reserves that may be available over the same planning period to assist in agreeing a strategic approach to the use of these reserves.

Forecast of Reserves

The table below shows the position on potentially additional reserves over the forthcoming planning period which have yet to be secured/ agreed.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Revenue					
NHB		4.0	4.0	4.0	*12.0*
16/17 Outturn		15.0	-	-	*15.0*
		19.0	4.0	4.0	27.0

Total Potential Forecast Resources over the Planning Period

If the above resources are realised then the potential available resources for consideration of priority investment will be as outlined below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Revenue	**20.848**	19.0	4.0	4.0	*47.848*
Capital			4.8	5.0	*9.8*
Total Potential	**20.848**	19.0	8.8	9.0	57.648

There are however a number of major assumptions / risks that we need to be mindful of in relation to the above forecast:-

1) the Government has recently consulted on the future of the NHB scheme and has yet to announce the outcome which may lead to a reduction in overall funding and the length of time it is available;

2) that going forward there is likely to be significant in year pressures within Business Units with the risks in the future around not being able to deliver Future Council within the resource envelopes agreed;

3) the Government is currently reviewing the overall funding system for Local Government with an intention to move to funding from 100% of business rates and an update of the needs to individual Authorities;

4) that further savings of some £17.8m will be delivered by 2020 to address the forecast budget gap;

5) interest rates remain low and the costs of capital investment can be contained within the capital finance budget;

6) we will continue to provide for the same level of additional new starts each year rather than reduce the ongoing revenue budget to assist in closing future budgetary gaps; and

7) the significant uncertainties around the decision to exit Europe within the planning period.

Priority Investment Requirements

Members have already recognised the need to invest in areas that will support our continuing direction of change and have previously earmarked £3m for an Invest to Grow Fund that can be accessed by Executive Directors to drive through change. Initial requests are now being considered by the newly established Invest to Grow Board that will ensure that the Fund is used to deliver the required outcomes and that EDs are accountable for its use. Details of approved expenditure will be reported to Members through the quarterly Revenue Monitoring Reports.

Directorates have also been requested to identify key Capital Investment requirements over the new planning period and these currently total some £100m, which is clearly significantly greater that the projected resources available. It must however be recognised that at this early stage, opportunities for securing external funding either through the City Region or other bodies remains to be explored and therefore the opportunity to deliver key investments without seeking use of reserves remains an option.

All current bids are being prioritised through the Capital Programme Board and will be brought to Members for consideration as part of the budget process.

In light of the Medium Term Financial Forecast, a key focus will remain on ensuring that the authority is maximising its overall resources to support the identified improvement priorities.

Maximising Capital Receipts

As outlined previously a 5 year disposal programme has been established to identify future receipts and work will continue with Directorates to ensure that full consideration is given to the current use of the authority's assets to determine the most appropriate way to deliver services as we move forward.

This should lead to further assets being declared surplus and available to be reinvested. However the current volatile market conditions make predicting future receipts difficult to assess at the moment.

NEXT STEPS

Consideration needs to be given to major Council wide and service transformation as we develop the second phase of future Council. We will need to ensure that we sustain a whole council approach to finding the required savings.

Our focus needs to concentrate on our core business and delivery against our key outcomes. Inevitably, this may mean that cuts do not fall evenly in all areas as we need to ensure that services are sustainable going forward.

Options determined through the above work will be considered as part of the Service and Financial Planning process to deliver the budget for 2020.

There are two key drivers for the timetable:

1) Our commitment to have a plan for 2020 to share with Members in September that will allow appropriate consultations to take place for the start of delivery in April 2017;

2) The Government's requirement for Local Authorities to deliver an efficiency plan (in a format yet to be announced) by October if we want to take up the 4 year settlement for 16/17.