Rotherham Metropolitan Borough Council

Public Report

Summary Sheet

Cabinet and Commissioners' Decision Making Meeting – 11 July 2016

Title: Medium Term Financial Strategy 2016/17 – 2019/20

Is this a Key Decision and has it been included on the Forward Plan?
Yes

Strategic Director Approving Submission of the Report –
Strategic Director of Finance and Customer Services

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Ward(s) Affected
All

Summary
Full Council approved the Council's Outline MTFS at its 2nd March 2016 meeting as part of approving the Council's 2016/17 Budget and Council Tax setting. Work has been progressing on updating the MTFS to include the period to 2020 and to reflect recent and ongoing developments in the redesign of the local government finance system (including the Adult Social Care Precept and the 4 -Year Settlement Offer) and to incorporate additional known budget pressures in order to identify an updated Funding Gap to be addressed by the Council of at least £42m to 2019/20.

The Report also starts to outline the process and the possible implications of accepting the Government's 4-Year settlement and identifies other relevant and significant factors which will affect the Council's Budget Strategy up until 2020 and beyond including: current consultations on reforms to the Business Rates system and the move to full localisation, the review of the New Homes Bonus regime, the Inception of the Improved Better Care Fund and the development of Sheffield City Region and its devolution arrangements.

Recommendations
Cabinet is asked to:

a. Accept the updated Medium Term Financial Strategy for 2016/17 to 2019/20 noting the contents of this report and in particular the increase in the estimated funding gap (the difference between projected resources and the forecast spending requirement); for the next 3 years as outlined in paragraph 3.2;

b. Note the current uncertainty surrounding future funding streams pending the outcome of a number of Government reviews regarding the redesign of the local government finance system;

c. Note the spending pressures not currently included in the forecast outlined in paragraph 3.50.

d. Agree to progressing the development of a 3 year Budget based on the 5 strategic and cross-cutting themes as described in paragraph 4.

List of Appendices Included

- Outline Draft Budget Timetable

Background Papers

- RMBC corporate "Fresh Start" Improvement Plan, 26th May 2015
- The Council's Outline Medium Term Financial Strategy 2016-2019 Report to Council 9th December 2015.
- The Provisional Local Government Finance Settlement – Report to Advisory Cabinet/Commissioners' Decision Making Meeting 8th January 2016.
- Revenue Budget Setting Report 2016/17 – Report to Council 2nd March 2016
- Outline Medium Term Financial Strategy 2016-19.
- Letter to Authorities 10th March 2016 from Secretary of State for Communities and Local Government.

Consideration by any other Council Committee, Scrutiny or Advisory Panel
As part of the policy-led approach to the Budget and MTFS the Overview and Scrutiny Management Board (OSMB) will continue to have overall responsibility for scrutinising the Annual Budget including the ongoing update of the MTFS. The attached Outline Budget Timetable (Appendix 1) incorporates the scrutiny of the Budget process and proposals and indicates the planned pattern of OSMB meetings throughout the process.

Council Approval Required
No

Exempt from the Press and Public
No

Title The Council's Medium Term Financial Strategy 2016/17 – 2019/20.

1. Recommendations

1.1 Cabinet is asked to:

a. Accept the updated Medium Term Financial Strategy for 2016/17 to 2019/20 noting the contents of this report and in particular the increase in the estimated funding gap (the difference between projected resources and the forecast spending requirement); for the next 3 years outlined in paragraph 3.2 of the report;

b. Note the current uncertainty surrounding future funding streams pending the outcome of a number of Government reviews regarding the redesign of the local government finance system;

c. Note the spending pressures not currently included in the forecast outlined in paragraph 3.50.

d. Agree to progressing the development of a 3 year Budget based on the 5 strategic and cross-cutting themes as described in paragraph 4.

2. Background

2.1 In 2015 Lead Commissioner Sir Derek Myers set out a requirement for the Council to have determined the broad shape of its MTFS for the next three years by November 2015. The finalised version of the Outline MTFS for the period 2016-2019 was considered alongside the 2016/17 Revenue Budget and both which were approved by Full Council in March 2016.

2.2 The approved Outline MTFS sets out the framework for understanding the strategic, service and financial challenges the Council faces and looks at the options for how these challenges may be met over the next 3 financial years. It supports the authority's organisational aims and objectives and these in turn support the Council's overall Vision.

2.3 The MTFS is a key part of the Council's Budget and Policy Framework intended to ensure that financial resources are aligned towards the delivery of the Council's future objectives and priorities which is essential for ensuring the Council's medium term financial sustainability. In refreshing the MTFS this current iteration not only moves forward the financial forecast in the light of recent national developments and local circumstances but also includes the effects of the Council's ongoing and rolling budget process. This report sets out the further developments and the updated Funding Gap and continues the Council's strategic approach to attaining budget sustainability.

2.4 When the Outline MTFS was approved in March 2016, it was recognised that the Strategy document would need to be kept under continuous review given the pace of change and in particular for the following reasons:

- Although the effects of Final Local Government Finance Settlement for 2016/17 were included in the MTFS, the resource projections relating to the latter two years of the Strategy were not adjusted in light of the 4-Year Settlement offer. A commitment was however, made to reflect the 2017/18 and 2018/19 settlement proposals in developing an update to the MTFS which also extends to the 2019/20 financial year.

- Considerable uncertainty still exists about the future of the Local Government Finance System in light of the ongoing consultations on full localisation of Business Rates and the New Homes Bonus regime, the announcements in the Chancellor's March 2016 Budget Statement and the introduction of the Improved Better Care Fund from 2017.

- In addition, work on implementing the Council's own 2016/17 Budget proposals, assessing savings proposals and growth/pressures items for 2017/18 and 2018/19 and on preliminary 2019/20 Budget estimates has resulted in the revision of the projected funding gap facing the Council as set out below in section 3.2.

2.5 This report sets out in turn the developments relating to resource and spending projections since the Outline MTFS was approved in March and also outlines the 2017/18 Budget process and timetable. Indeed, it also seeks to continue to map out how the Council will need systematically to make financial decisions that make clear where resources are to be used to support the vision for the Council over the next decade and to promote sustainability within the Council, its services and its finances.

3. Key Issues

3.1 **The financial challenge** - Between 2011 and 2016 the Council has had to address a funding gap of £117m with a further £21m Budget gap being addressed in the current financial year, 2016/17. However estimated budget gaps of £6m and £9.4m remained for 2017/18 and 2018/19 respectively as set out below.

	2016/17 £m	2017/18 £m	2018/19 £m
Total Budget Requirement	**199.521**	**197.280**	**201.267**
Estimated Resources			
- Government Funding	-39.405	-27.666	-17.649
- Business Rates	-60.829	-62.402	-64.506
- Council Tax	-93.188	-94.233	-96.800
- New Homes Bonus	-6.099	-6.978	-6.918
Total Estimated Resources	**-199.521**	**-191.279**	**-185.873**
Annual Increase in Funding Gap		**6.001**	**9.393**
Cumulative Funding Gap		**6.001**	**15.394**

3.2 It was anticipated that the financial projections contained in the Outline MTFS would need to be kept under review, and when appropriate be revised. Since the 2016/17 Budget was set in early March 2016 there have been several important developments, both national and local affecting both estimated resources and Council spending. Equally there has been ongoing work to identify and refine budget pressures and savings proposals and roll forward the forecasts to include 2019/20. Reflecting these developments, the annual and cumulative funding gaps are currently now estimated to be:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Budget Requirement	**199.521**	**204.126**	**211.573**	**229.320**
Estimated Resources				
- Government Funding	-39.405	-28.943	-21.923	-14.857
- Business Rates system	-60.829	-61.999	-63.721	-65.477
- Council Tax (including ASC precept)	-93.188	-96.063	-100.610	-103.878
- New Homes Bonus (under review)	-6.099	-3.996	-3.535	-3.247
Total Estimated Resources	**-199.521**	**-191.001**	**-189.789**	**-187.459**
Annual Increase in Funding Gap		**13.125**	**8.659**	**20.077**
Cumulative Funding Gap	**0**	**13.125**	**21.784**	**41.861**

This is a summary position and the following sections and paragraphs provide a detailed analysis of the estimated resources and spend requirements contained within these totals. It is intended to continue to review and update the Council's financial projections throughout the year as information and intelligence becomes available and to report these to Members as appropriate.

3.3 **Resources** - In addition to the challenges facing all councils, Rotherham's particular circumstances mean it continues to face additional significant financial pressures in the coming three financial years up to 2020. In light of this, effectively managing the future resource base of the Council will be key to achieving effectively the long term sustainability of the Council, the more so because a significant and increasing amount of the Council's resources will be driven by local growth (Business Rates income and New Homes Bonus) and local decision making (Council Tax, Housing Rents and fees and charges).

3.4 **Funding from Government** - The Council receives an annual Settlement Funding Assessment (SFA) which is composed of Revenue Support Grant (RSG), Business Rates Top-up Grant and the Government's projection of the Council's share of the Business Rates income raised in Rotherham.

3.5 The current Outline MTFS included the working assumption that the Council will have to manage a reduction in its government funding allocation of on average 9% a year for the years 2016/17 to 2018/19 – a 27.2% reduction overall. Within this overall reduction, the model assumed a greater reduction in RSG and that increases in the Business Rates Baseline and Top-Up Grant would be in line with assumed inflation.

3.6 The Government's 2015 Autumn Statement, however, included plans for 100% retention of Business Rates by local government accompanied by the phasing out of RSG by the end of this decade. The Government has now started to engage with councils and consult on how this major change will be implemented through the summer of 2016, prior to legislation being laid in early 2017. For the present, the impact of any proposed change is not reflected in the published Spending Review and Settlement figures.

3.7 **Further developments (100% Rates Retention and Formula Review)** - The Government's stated intention is to phase out government grant funding and move towards 100% Rates Retention from 2020 which will inevitably mean significant changes to how the Council will be funded. Councils will be expected to fund their spending plans solely from locally raised income (Council Tax, Business Rates and fees and charges). Government estimates that 100% Rates Retention will give authorities £26 billion in total Business Rate revenues – some £13 billion of additional local tax revenues. However, as the move to localisation is expected to be fiscally neutral, authorities will be expected to take on new responsibilities to match the additional resources. It is likely that before this happens, the Council, working with its Sheffield City Region partners through its devolution agreements, will look to become a pilot region (possibly for 2017/18 alongside Greater Manchester and Cambridgeshire) and in doing so will be looking to influence and strongly shape the take–on of any new or additional responsibilities.

3.8 **Business Rates Income** - The SFA currently includes a Government set "Business Rates Baseline". This was established with the inception of the Business Rates Retention scheme (1st April 2013) based on Rotherham's historic share of the national aggregate Business Rates income. This "baseline" is increased annually in line with changes to the Business Rates multiplier set by Government.

3.9 In determining its financial forecast and Budget, however, it is for the Council to set its own estimate of the likely level of retained Business Rate income, including its ability to collect it - a significant factor in determining the Council's overall financial position. The Council's Business Rates income target in its 2016/17 Revenue Budget is £35.930m and the forecasts for the future years covered by the MTFS are shown below.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates income	**-35.930**	**-36.592**	**-37.558**	**-38.549**

3.10 The 2016/17 estimated rates yield has declined by £0.3m or 0.8% compared with 2015/16 estimates (£36.211m) as a result of allowances for reductions relating to:

- Schools converting to academy status and qualifying for mandatory 80% charitable relief;
- The potential impact of business closures and failures; and
- Outstanding Rates appeals (c700 appeals) which include those from all of the large retailers/supermarkets and account for over £60m of rateable value.

3.11 The MTFS currently assumes that from 2016/17 the national rates multiplier will rise annually in line with RPI inflation as estimated by the Office of Budget Responsibility (OBR), 2.2%, 3.0% and 3.0% respectively. Against this it is estimated that Rotherham's rates base will reduce by 0.35% per year reflecting low or static projections in rates growth as a result of:

- Rate Appeals;
- Academy conversions;
- The Council's relatively narrow economic base due to its dependency on a few significant business sectors; and
- That those areas of the Borough where higher rates growth might be expected are within an Enterprise Zone where rates income growth is not retained by the Council but is transferred to the Local Enterprise Partnership (LEP) and Sheffield City Region Combined Authority.

3.12 The projections currently neither allow for any applications by NHS Foundation Trusts seeking retrospective Charitable Relief status, which, if successful could lead to a one-off refund of £4.8m and an ongoing reduction of £0.9m a year moving forward, nor do they reflect appeals in respect of Automated Telling Machines (ATM's) worth around £1m gross.

3.13 **Rates Relief** - The business rates system allows for discounts or reliefs – most significantly for small businesses. These are funded by the Government outside the SFA mechanism as Section 31 Grants and are paid in addition to the settlement sums outlined above. In the March 2016 Budget, the Chancellor or the Exchequer announced that with effect from April 2017:

- Small Business Rate Relief (SBRR) will be permanently doubled from 50% to 100% with the cost met by the Government. In Rotherham, this grant is worth £1.3m for 2016/17 and some 2,300 properties benefit from the relief.

- The upper threshold for 100% relief will be increased from a rateable value of £6,000 to £12,000 – which is estimated to affect around 750 properties in Rotherham, currently paying £1.35m in rates. Around 300 businesses with a rateable value between £12,000 to £15,000 and currently paying £2m in rates will receive tapered relief.

- The threshold for the standard Business Rates multiplier will be raised to a rateable value of £51,000 which will apply to around 1,200 properties in Rotherham.

These reforms are estimated to cost between £1.5bn and £1.7bn per annum nationally, but councils will be fully compensated by Government for the loss of income. So although the current MTFS does not reflect these changes it is assumed that reduced rates income will be matched by increased Section 31 Government grant meaning that the impact on the Council's resource level is neutral.

3.14 **Other Rates Income** - As well as its share of Gross Business Rates Income, the Council also benefits from other rates income streams. For example, it is able to retain in full the rates received in respect of new renewable energy developments (£0.159m) and is compensated for the relief awarded to businesses within the Enterprise Zone (£0.305m).

3.15 The above forecasts in respect of Business Rates income are summarised below:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Business Rates Retention Scheme				
Business Rates Retained income	-35.930	-36.592	-37.558	-38.549
Section 31 Grants	-1.618	-1.664	-1.720	-1.720
Renewable Energy	-0.159	-0.163	-0.167	-0.167
Enterprise Zone Relief	-0.305	-0.315	-0.324	-0.324
Government Top Up Grant	-22.817	-23.265	-23.952	-24.717
TOTAL	**-60.829**	**-61.999**	**-63.721**	**-65.477**

3.16 Work is in progress by the Valuation Office Agency (Government) on the first rates revaluation since 2010, which is expected to take effect in 2017/18. Although it was promised when rates retention was introduced that the Government would *"adjust tariffs and top ups at the…revaluation to ensure, as far as is possible, that no local authority is worse off as a result of our commitment to ensure that the amount of Business Rates paid by businesses nationally does not increase as a result of revaluation"* there is considerable uncertainty as to how this will be achieved. It is at present assumed that the pledges given by Government at the inception of the Rates Retention Scheme will be honoured.

3.17 **Four Year Settlement Offer** - The Final Local Government Finance Settlement 2016/17 (February 2016) included indicative SFA allocations covering; RSG, Rates Top-Up Grant as well as retained Business Rates income for the financial years up to 2019/20 and confirmed that the Government would offer any council wishing to take it up a four-year funding settlement.

3.18 Further details of the offer were released on 10th March when the Secretary of State for Communities and Local Government sent a letter and annex to authorities which confirmed the following:

- This is expected to be the only time in the course of the current Parliament that a multi-year settlement will be offered and authorities have until 14th October to accept the offer.

- The only condition applying to the multi-year settlement offer appears to be the requirement for an efficiency plan, showing how a four-year settlement will bring about opportunities for further savings.

- Not accepting the offer would mean the Council's grant allocations remain subject to the existing annual settlement process. Future levels of funding will not be guaranteed and could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the Government's fiscal deficit.

- Although both the Provisional and Final Local Government Settlements for 2016/17 included indicative resource allocations for following years these did not reflect the plans for 100% rates retention.

- In Rotherham's case the offer relates only to RSG as the Council does not receive the other grants covered by the offer and the offer does not extend to several other significant funding streams (such as New Homes Bonus or Public Health Grant) which are therefore not protected.

3.19 The position, taking account of the limitations of the offer and the uncertainty about how binding it is, will be considered in a further report that will be brought forward to Cabinet meeting in September.

3.20 Although the Council has made no decision as yet on whether to accept the four-year offer the revised MTFS resource projections for the years after 2016/17 reflect the four year settlement RSG figures which would give the Council additional RSG resources over and above those in the Outline MTFS as set out below.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Medium Term Financial Strategy Estimate – 2nd March 2016	39.405	27.666	17.649	NA
February 2016 Indicative Four-Year Settlement offer	39.405	28.943	21.923	14.857
Difference	**0.0**	**+1.277**	**+4.274**	**+14.857**

3.21 **Council Tax Income** - In 2016/17 Rotherham set a Band D Council Tax of £1,328.20 – an overall increase of 3.95% over the tax charged in 2015/16 £1,277.73 composed of a 1.95% rise in the Basic Tax and a 2% (or £25.55) Adult Social Care Precept (ASC), which the Government introduced to help authorities with social care responsibilities meet the increased numbers of clients and rising costs of providing care to residents. By making use of the scope to charge an Adult Social Care (ASC) Precept in 2016/17, the Council was able to generate £1.7m additional Council Tax income over and above that of previous years, and to raise £89.188m in Council Tax.

3.22 Going forward the Council will, as stated above, be increasingly dependent on the income it can raise locally including Council Tax and this will be determined by the following factors.

3.23 **Annual Increase in Council Tax** - Until 2016/17 it has been the Government's policy to prescribe a percentage Council Tax increase that would trigger a local referendum (the threshold has been set at 2% for several years) and to encourage authorities not to increase their Council Tax by making available Council Tax Freeze Grant. The current financial year saw a change in this policy, although the 2% Referendum threshold was retained, there was no Council Tax Freeze grant and social care authorities were allowed to increase their Council Tax by a further 2% (Adult Social Care Precept) permitting Council Tax to be increased by up to 4%. This additional "2% social care precept" has to be ring-fenced to spend on adult social care services.

3.24 The default assumption within the Outline MTFS is that the 2% basic Referendum Threshold would be retained and that the Council will increase its basic Council Tax by 1.95% per year for the next 3 financial years to 2019/20.

3.25 Although it has been confirmed that the scope to raise a further 2% ASC precept annually would remain in place until 2019/20, the Outline MTFS approved in March did not include any assumption about further use of the ASC Precept beyond the 2016/17financial year.

3.26 In preparing the latest budget and resource projections this has been revisited and Council Tax income estimates now include the effect of raising an ASC precept in the Borough's Council Tax in each of the next three financial years. Clearly this assumption may be reviewed going forward and Council Tax increases are a decision reserved for Members as part of the ongoing role of Full Council to approve the Council's overall annual budget.

3.27 **Rotherham's Tax Base –** i.e. overall number of properties that the Council can collect Council Tax from, a change in the tax base is the result of:

- The building and completion of new housing properties in the Borough;
- Changes in Council Tax Banding as a result of adjustments and appeals;
- Discounts, exemptions and reliefs granted (for example, single person discounts, and reductions in liabilities for disabled persons);
- The ending of the discount period on empty properties or their reoccupation.

3.28 For 2016/17 it was projected that the Council's Tax Base would be 67,149.57 Band D Equivalent properties - a rise of almost 2.6% over 2015/16 generating additional Council Tax income of over £2m in 2016/17. This increase is significantly higher than in recent years and reflects:

- A one-year reduction in the provision for losses on collection from 3.5% to 3% as a result of the Council's continuing to demonstrate its ability to sustain its good collection record;
- The reduced cost of the Council's Council Tax Reduction Scheme (CTRS) due to a declining number of working age benefits claimants;
- The construction of new properties - significantly at Waverley; and
- Removal of the 25% empty property discount allowed for the first 6 months that a dwelling property is empty including those undergoing major structural repairs.

3.29 Rotherham Council has a good record in respect of Council Tax collection - experience for 2015/16 indicates that the 96.5% target in year collection rate was exceeded with 97.3% being collected (an increase of 0.1% from 2014/15). Rotherham's record as one of the best preforming metropolitan authorities is expected to be maintained (the Council was ranked 5th in 2014/15 and the rankings for 2015/16 are currently awaited). Reviewing the adjustment made for losses on collection in light of the continuing level of performance over several financial years, an estimated collection rate of 97% was applied the Council Tax Base for 2016/17 reducing the provision for losses on collection from 3.5% to 3% for one year. Whilst collection rates in the current year are being closely monitored, forecasts currently assume a collection rate of 96.5% per year for the remainder of the MTFS period.

3.30 **Council Tax Reduction Scheme (CTRS):** in addition to new build properties the 2016/17 tax base was also increased as a result of the reduction in the cost of the Council's CTRS scheme due to a reduction in the value of claims and the number of working age claimants. Rotherham's current CTRS, which was introduced in April 2013, requires Council Tax payers of working age to pay a minimum of 8.5% of their Council Tax bills (pensioners are protected under national regulations). The Council's scheme has been subject to annual reviews but has not changed since its introduction. A further review of the scheme will be brought forward in September and will reflect the emerging outcomes from national research published in the last 6 months. At this stage no change in the CTRS scheme has been assumed: this will, however, be an issue for Members to consider alongside the financial challenge.

3.31 **New properties:** as the construction industry continues its recovery, the number of new properties completed in the Borough has increased and not only have more properties been built but, the new properties are more likely to fall into the higher value Council Tax bands. Nevertheless approximately, 86% of domestic properties in Rotherham are in Council Tax Bands A to C – with 54% in Band A and less than 1% in Bands G and H – the highest value properties.

3.32 Council Tax forecasts currently assume annual growth in the Tax base of 0.9% based on the average over the 3 years to March 2015. This assumption will, however need to be reviewed in the light of Members' decisions in relation to other factors affecting the Council Tax Base.

3.33 **Collection Fund Surplus (Council Tax):** It is expected that the Council's good Council Tax collection rate (both in year and cumulatively as outlined at 3.29 above) will be sustained and, in light of this, a review of the position on the Council's Collection Fund indicates that it would be appropriate to earmark £3m of surplus to be used annually to support the Council's Revenue Budget upto and including 2018/19, reducing to £1.5m thereafter. The overall financial performance of the Collection Fund is part of routine financial monitoring and reporting which will keep this under review.

3.34 The assumptions around Council Tax income are summarised in the table below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Council Tax	-89.188	-93.063	-97.610	-102.378
Collection Fund Surplus	-4.000	-3.000	-3.000	-1.500
TOTAL	**-93.188**	**-96.063**	**-100.610**	**-103.878**

3.35 **New Homes Bonus** (NHB) is a national Government scheme intended to support the provision of additional housing through incentivising councils to facilitate and support either new construction or bringing long-term empty properties back into use. The Bonus paid to authorities is based on the national average Council Tax for properties in the same band as those constructed or brought into use and also includes premiums for affordable housing. In Rotherham's case this generates around £1,400 per unit paid on a 6 year rolling basis - an allocation of just under £6.0m in 2016/17. The majority of this resource allocated to local councils is essentially top-sliced from the Revenue Support Grant (with any residual top-sliced funding not used being refunded to authorities – Rotherham received around £0.1m back in 2016/17).

3.36 The 2015 Autumn Statement announced consultation on reforms to the scheme including: means of sharpening the incentive to reward communities for additional homes; reducing the length of payments from 6 years to 4 years; introducing a drag factor or minimum qualifying increase of 0.25% and options for savings of at least £800m to be reallocated for improving social care. The consultation closed in March 2016 and the results are awaited.

3.37 The Outline MTFS published with the Budget report assumed that the NHB scheme would continue in its current form, however the revised Financial Challenge makes prudent assumptions about changes to the scheme and the revised assumptions are set out below pending publication of proposals.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New Homes Bonus & Top-slice refund	-6.099	-3.996	-3.535	-3.247

3.41 **Improved Better Care Fund** – one of the reasons for the review of the NHB is to identify resources to part fund the Improved Better Care Fund will be resourced in part by reductions in the New Homes Bonus. Indicative allocations included with the Final Local Government Settlement suggested that Rotherham could receive:

- 2017/18 £1.1m
- 2018/19 £6.3m
- 2019/20 £10.8m

The Council's resource projections currently do not include any estimated additional income from the Fund as although indications are that Improved Better Care funding will be passed to the Council:

- The allocation method has yet to be agreed;
- The terms and conditions around the Fund's use are not at present known;
- The indicative allocations will levy a 2% ASC precept each year; and
- How will the improved BCF allocations fit with the current BCF and the level of current funding provided by the local Clinical Commissioning Group?

3.42 **Overall Estimated Resources - t**he current overall resources assumptions are summarised in the table below:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Estimated Resources				
- Government Funding	-39.405	-28.943	-21.923	-14.857
- Business Rates system	-60.829	-61.999	-63.721	-65.477
- Council Tax (including ASC precept)	-93.188	-96.063	-100.610	-103.878
- New Homes Bonus	-6.099	-3.996	-3.535	-3.247
TOTAL	**-199.521**	**-191.001**	**-189.789**	**-187.459**

3.43 **Specific Grants** - in addition to non-ringfenced grants such as RSG, Section 31 and NHB, the Council receives specific grants from several Government Departments in relation to a range of activities and duties. The terms and conditions attached to these grant mean that the Council is not always free to determine how these resources are used; nevertheless specific grants represent a significant funding steam for the Council.

3.44 The largest of these is Dedicated Schools Grant (DSG) - £88.87m in 2016/17. This is the main source of income for the maintained schools' budget. The Council receives its DSG allocation from the Department for Education (DfE) on the basis of block allocations determined by the number of pupils. Currently authorities are being consulted on the introduction of a new National Funding Formula for all schools and academies which will be in place from 2017/18. The implications of the proposals are currently unknown but, because

Rotherham's Guaranteed Unit of Funding per pupil is relatively high compared to other authorities, the Council may be disadvantaged. However, in both the 2015 autumn Spending Review and in the Chancellor's 2016 Budget the Government's intention for all schools to become academies by 2022 was stated, which would further reduce the Council's role in Rotherham Schools.

3.45 Aside from DSG, it is estimated that the Council will receive some £32.8m in major specific grants in 2016/17, 2.3% or £0.8m less than in 2015/16. This reduction is due to the phasing out of funding streams such as Education Service Grant (ESG), the merging of some funding streams such as the Adult Social Care New Burdens grant and funding for Deprivation of Liberty (DOLS) within RSG and cuts in the national level of resources for Public Health.

Specific Grant	**2016/17 £'m**	**2017/18 £'m**	**2018/19 £'m**	**2018/19 £'m**	**Ref**
Public Health	-17.157	-16.734	-16.299	-15.875	i
Department of Health Local Reform and Community Voices Grant	-0.184	N/A	N/A	N/A	ii
Independent Living Fund (ILF)	-1.588	-1.535	-1.487	-1.442	iii
Education Services Grant (ESG) (est)	-2.458	-1.774	-0.709	-0.709	iv
Council Tax Support and Housing Benefit Admin Subsidy	-1.625	-1.625	-1.625	-1.625	v
PFI Education (Revenue)	-6.223	-6.223	-6.223	-6.223	
PFI Leisure (Revenue)	-1.811	-1.811	-1.811	-1.811	vi
PFI Waste (Revenue)	-1.781	-1.781	-1.781	-1.781	

i. **Public Health –** Rotherham's Public Health Grant allocation for 2016/17 was £17.571m. A further £0.4m reduction is anticipated for 2017/18. National Grant totals are expected to reduce by 2.6% a year in both 2018/19 and 2019/20 and the estimates shown for the council reflect this but firm details of allocations for later years are not known at this time.

ii. **Department of Health Revenue Funding Local Reform and Community Voices Grant -** the allocation covers Healthwatch, Independent Complaints and Deprivation of Liberty in Hospital. Funding was reduced in 2015/16 with the loss of resources for Independent Mental Health Advocacy which is now part of the Better Care Fund and details of allocations beyond the present year are unknown at present.

iii. **Independent Living Fund (ILF) -** was transferred to Local Authorities from July 2015. Rotherham's funding for 2016/17 £1.6m in a full year, which should cover existing payments.

iv. **Education Services Grant (ESG) -** is paid to authorities to support their role as a local education authority (LEA) based on the number of pupils. The Outline MTFS had assumed that the Council's ESG allocations would decline as schools converted to academy status leaving only £15 per pupil in relation to the Council's retained duties. The recent funding review, however, has reduced the per capita allocations from £77 to £15 per pupil with effect from September 2017. In previous years the decline in ESG has been treated as a corporate issue and consequently has been included in the budget baseline so that the pressure can be addressed as part of the overall financial challenge.

v. **Council Tax Support and Housing Benefit Admin Subsidy -** Rotherham receives approximately £1.6m subsidy towards the administration costs of the Housing Benefit and Council Tax Support schemes and it is currently assumed that this will continue for the period of the MTFS.

vi. **PFI Grants -** the Council receives an annual fixed grant in respect of each of its three PFI schemes. This grant is used to help meet the monthly contract liability payments to the individual contractors. As such, this grant is not available to support the wider Council budget.

REVENUE EXPENDITURE REQUIREMENT

3.46 The Council set a Net Revenue Budget for 2016/17 of £199.521m and this has formed the base of the current Budget Baseline spend set out below:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
MTFS Budget Baseline	**199.521**	**204.126**	**211.573**	**229.320**
% increase year on year		***2.3%***	***3.6%***	***8.4%***

3.47 The 2016/17 Baseline Budget has been rolled forward allowing for; inflation, the ongoing effect of agreed savings proposals and recognised budget pressures to give an indicative spend requirement. The relatively larger increase in spending in 2019/20 reflects phasing out of capital financing costs which have, where prudent, been revised to deliver savings in the earlier years of the MTFS. The table below sets out the inflationary increases included in the Baseline, however no provision has been made for general price inflation.

Baseline Budget Inflation Assumptions	*2017/18*	*2018/19*	*2019/20*
Pay award inflation	*1.0%*	*1.0%*	*1.0%*
2016 Triennial Pensions Valuation –which would take effect from April 2017	*2.0%*	*2.0%*	*2.0%*
Business Rates inflation	*3.5%*	*3.5%*	*3.5%*
Electricity	*5.0%*	*5.0%*	*5.0%*
Gas	*5.0%*	*5.0%*	*5.0%*
Water	*5.0%*	*5.0%*	*5.0%*
Insurance	*3.1%*	*3.1%*	*3.1%*
Contract Inflation – Adult Social Services Residential and Domiciliary Care etc.	*2.0%*	*2.0%*	*2.0%*
Contract Inflation – CYPS Placements	*3.0%*	*3.0%*	*3.0%*

3.48 **Budget Implementation –** Since the 2016/17 Budget was set in early March 2016 work has progressed to confirm funding estimates, budget pressures and savings proposals in the later years of the MTFS. In addition, spend forecasts have been rolled forward to include 2019/20. The revised Financial Challenge for the next 3 financial years of £42m (para 3.2 Table)reflects the following:

- **Apprenticeship Levy -** as announced in the 2015 Autumn Statement an apprenticeship levy of 0.5% of payroll will be introduced in April 2017, the cost to Rotherham is likely to be around £0.3m per year excluding schools.

- **ITA Levy –** a target reduction of 10% a year in the ITA levy had been set for the period 2016 to 2019. Although this was achieved in 2016/17, it is now not considered likely resulting in the scaling back to 5% for 2017/18 and standstill for 2018/19 onwards.

- **Pensions' deficit backfunding –** work on the 2016 triennial revaluation of the South Yorkshire Pensions Fund is currently underway and the results are expected to be confirmed by the end of the calendar year. The Outline MTFS made clear that no provision had been included for the results of the valuation. Preliminary indications are that the funding level will have reduced from the 2013 valuation and that the Council's contributions toward the past service deficit will increase. An estimated budget pressure of £2m has been identified.

- **Corporate increase in Living Wage –** the Council currently pays a local living wage rate of £7.93 per hour and has signalled its intention to pay the Joseph Rowntree Foundation Living Wage (currently £8.25 per hour) which will increase employment costs by £0.3m in the 2017/18 estimates.

- **Adult Social Care (Providers) –** the Government's intention is that the National Living wage should increase to over £9 per hour by 2020. This would imply an increase of around 8.3% pa which is expected to place a cost pressure on contracts with external providers of £0.8m pa.

- **Transition of children to adult services**- initial estimates are that the transition of clients from children's services to adults would cost £1.1m in 2017/18, with a further £0.7m per year in 2018/19 and 2019/20.

- **Holiday Pay (Tribunal Review)** – a new agreement reached with the Trades Unions effective from April 1st 2016 will add £0.25m to costs.

- **Public Health Specific Grant reduction** – as outlined in the specific grant section, funding will reduce by £0.4m in 2017/18. Although it is known that the national funding pot will reduce by 2.6% pa in each of the two following years details of how grant will be allocated are not known – consequently this has not yet been factored into forecasts.

- **Additional Inflation Adjustments** – additional inflation costing £0.4m in 2017/18, £0.9m in 2018/19 and £1.4m in 2019/20 have been identified, largely in respect of social care placement contract costs.

3.49 **Overall Position-** taking into Account the above factors the Council's updated Funding Gap is as follows:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Total Budget Requirement	**199.521**	**204.126**	**211.573**	**229.320**
Estimated Resources	**-199.521**	**-191.001**	**-189.789**	**-187.459**
Annual Increase in Funding Gap		**13.125**	**8.659**	**20.077**
Cumulative Funding Gap	**0**	**13.125**	**21.784**	**41.861**

3.50 The Budget process also identified a number of potential cost pressures which will need further consideration in finalising the MTFS and which therefore have **NOT** been included in the current MTFS Funding Gap:

- Any further investment in Children's Social Care;
- Any additional impact of the Pensions Triennial Revaluation above £2m per annum included above;
- Changes to Business Rates announced in the Autumn Statement & Budget and impact of any further rates appeals (as outlined above);
- Any additional CSE claims;
- Winter Maintenance Pressures;
- Adult Services Demographic Pressures;

- Air quality penalties - the cost of penalties arising from a national failure to meet air quality targets could be passed down by central government to local authorities; and
- Potential cuts to Better Care Fund by the local Clinical Commissioning Group (CCG) leading to reduced allocations.

As the budget process continues it is anticipated that further work will allow the Council to identify the full cost implications and any mitigating actions in respect to these issues and to incorporate them, where relevant to do so, within the MTFS.

3.51 The Financial Challenge outlined above represents the position at the present moment in time, the 2017/18 Budget process is expected to confirm cost implications, determine which pressures will be funded by the Council and at what level and to identify savings and efficiencies to allow the Council to set a balanced budget and a sustainable MTFS.

4. BUDGET STRATEGY AND APPROACH

4.1 Prior to the 2016/17 Budget process the Council's financial planning had been criticised as short-term and it was recognised that rather than just articulating the levels of saving required across service areas the Council had to address the total budget challenge in a sustainable way. To this end the Budget Process was revised and new arrangements were put in place to determine the 2016/17 budget and Outline MTFS.

4.2 Further to this, in February 2016 the Government agreed to the roll back of certain powers to Elected Members including Corporate Financial Planning. It is therefore appropriate for the Council to review its overall approach to the Budget and to set out its own strategic direction for the future which will help to inform budget decisions.

4.3 It is proposed that the approach to the budget and the identification of future budget savings will be based on a number of cross cutting themes as set out below. The advantage of progressing the Budget on this basis is to assist with a more corporate and long term strategic approach and to deliver the necessary savings based on clear consideration of priorities. This themed approach would also help to ensure optimum consideration of value for money as part of all budget decisions. It would help to avoid harsh, poorly thought through budget plans and allow for a managed approach to delivery over the 3 year budget and MTFS period.

4.4 The 5 themes are set out below:

Theme 1 - Driving Organisational Efficiency & Improving Value for Money

- Reducing high unit cost services to below median and towards lower quartile without compromising performance;
- Standardising the way the Council does business;
- Simplifying, standardising and shortening customer journeys;
- Reviewing management layers, spans of control;
- Smarter more intelligent Commissioning and Procurement;
- Key contract reviews e.g. PFI, Riverside Lease, Dignity (Cemeteries & Crematoria);
- Service Transformation – customer services, business support;
- Integration potential – e.g. Performance & Quality and Commissioning;
- Co-location of centralised budgets e.g. Training and Development, marketing.

Theme 2 – Building independence and resilience

- Estate and property rationalisation across the public estate;
- Realising the Digital Council – 'digital by default', simplifying the customer journey;
- Review of neighbourhood and locality working incl. Community asset models;
- Reviewing and managing the impact of transitions from Children's Services to Adult Services.

Theme 3 – Leveraging in resources and income

- Delivering Economic Growth – increased New Homes Bonus, Council Tax income and Business Rates;
- Reviewing which services should be subsidised and to what level and where more income could be generated through an alternative offer;
- Review of Council Tax Reduction Scheme (CTRS) and Business Rates Discretionary Relief;
- Review of Service fees and charges.

Theme 4 – Working in different ways for improved outcomes

- Integrating social care and health services (including Public Health)
- Considering shared service opportunities across Sheffield City Region;
- Considering alternative delivery models including partnerships and joint ventures, alongside internal service delivery and operating models.

Theme 5 – Reviewing what the Council delivers in the community

- What services should the Council deliver and to what level and quality/standard?
- What services does the Council undertake or arrange provision of which other Local Authorities do not?

- Are there services which could potentially be provided by other means?
- Ensuring that universal services are aligned to the differing needs of neighbourhoods.

4.5 It should be noted that the £42m funding gap over the next 3 financial years is predicated on the assumption that all services will maintain their spending within the cash limits set and that all approved budget savings will be achieved as planned. Should there be any digression from that situation it will change the budget gap accordingly. This is particularly relevant given the pressures within Childrens Services.

5. Options considered and recommended proposal

5.1 The current resource and expenditure projections and the resulting estimated funding gap are based upon robust and prudent assessments of the future level of resources available to the Council, the cost pressures facing the Council and the factors affecting them. The assumptions underlying the projections are subject to sensitivity analysis - modelling the impact and interaction of changes. The expenditure projections and budget pressures have also been subject to detailed consideration and assessment in light of the Council's Vision and Priorities and, as a consequence, not all potential pressures have been included in the forecast at this stage.

5.2 The funding gap outlined above represents what is currently considered the most likely position, however given that;

- Those pressures currently included will continue to be reviewed and where mitigating actions can be identified revised;
- The current uncertainty around some funding streams and the outcomes of ongoing government reviews;
- Possible changes in economic conditions both nationally and locally; And
- Continuing work to establish whether those potential cost pressures currently identified as needing further consideration will be included in future iterations of the MTFS.

Projections and the assumptions underlying them will therefore be kept under review and will be updated as required.

6. Consultation

6.1 The Outline MTFS acknowledged that the Council must not work in isolation, as budget decisions will inevitably impact on other organisations in the Borough. For that reason, the 2016/17 budget process involved at an early stage the Council's partners and stakeholders to ensure their input to proposals and to identify opportunities for working together to provide better, more cost effective services.

6.2 As part of this process, during the summer of 2015 the Council undertook a major consultation exercise involving; an online survey, 27 roadshow sessions, the Rotherham Show and a “Chamber means Business” event. The results of this exercise were used to help to define a new Vision for Rotherham and a new Community Strategy and are reflected in the Outline MTFS.

6.3 In relation to future Budgets, a programme of public and partner consultation will be developed and the consultation outcomes will be embedded into the Budget considerations to ensure that residents’ priorities continue to inform the Council’s decision-making.

7. Financial and Procurement Implications

7.1 The preceding paragraphs in this report set out the financial assumptions that have been considered and used in putting forward the revised funding gap facing the Council over the period 2017/18 to 2019/20. In considering this funding gap it is important that Members fully understand the financial position of the Council.

7.2 The Council’s budget strategies have previously not sought to harness resources outside those traditionally available to fund ongoing revenue expenditure. To date this has chiefly been achieved by delivering a balanced outturn position and the Authority has an excellent track record of bringing in overall expenditure on or below budget each year. This has provided financial flexibility through balances being available to support the Council’s medium term plans.

7.3 However, the current proposals with respect to the future funding of local government will continue the transfer of significant levels of risk from central government to local government and will expose individual authorities to significant potential variations in resources year on year resulting from factors largely outside their control.

7.4 In light of this it is recognised that the Council may have a future need to use its reserves where prudent to do so. It should be stressed that these resources are non-recurring and so, although there may be merit in using them to fund one off investments, their use to fund ongoing expenditure is not sustainable and should be minimised in pursuit of a sustainable balanced budget.

7.5. In advising on an appropriate level of reserves 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 leading to 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

- Too low a level of balances may put the organisation at risk if unexpected demands and risks/events appear at relatively short notice.

7.6 Having assessed the risks plus their impact on available balances and the potential scale of the financial challenges facing the Council, the Strategic Director of Finance and Customer Service confirms that at this stage a reasonable level of minimum working balance would be set at 5.6% of the 2016/17 net budget requirement. This level takes into account the twin objectives of minimising the cost to the taxpayer whilst minimising the effect financial risk on the Council. This level of Generally Available Balance (Working Balance) is some £11.3m as April 2016. This is considered a prudent level which will allow the Council to safeguard itself against the potential financial risks in its MTFS.

7.7 The issues and difficulties encountered in delivering the budget over the last few years have led to a gradual increase in the level of working balance needed. Historically the minimum working balance has been set at 3%, based on delivering annual savings of 2 to 3% a year. However, based on known risks and the scale of the Financial Challenge, it is recommended that the current 5.6% level is at least maintained going forward. Given that the unprecedented speed of funding, welfare and other policy change over the last 4 years and current uncertainty in respect of the position in the coming three financial years, pending confirmation of arrangements in respect of Business Rates, New Homes Bonus and other funding streams (such as Public Health Grant and the Improved Better Care Fund) then this balance needs to be carefully managed and may need to be increased further to meet the level of risks in the system.

8. Legal Implications

8.1 None directly from this report.

9. Human Resources Implications

9.1 The MTFS recognises that the Council's workforce will be smaller in future - with an estimated reduction of around 30% over the next decade as a consequence of the expected ongoing reduction in resources. A new Workforce Strategy is currently being developed which will reflect both this reduction in the size and anticipated changes in the deployment of employees and the skills required to meet future challenges.

10. Implications for Children and Young People and Vulnerable Adults

10.1 None directly from this report, however the Outline MTFS commits the Council to design and begin to implement a sustainable service to children and families, prioritising the most important interventions. To this end the Service is bringing forward in September a Medium Term Financial Strategy that will need to be considered by Members as part of the Budget and overall Council Medium Term Financial Planning process.

11 Equalities and Human Rights Implications

11.1 In preparing its MTFS, the Council must be mindful of the potential impact on service users. Section 149 of the Equality Act 2010 in particular imposes an obligation on Members to have due regard to protecting and promoting the welfare and interests of persons who share a relevant protected characteristic (such as: age; disability; gender re-assignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation).

12. Implications for Partners and Other Directorates

12.1 The Strategy commits the Council to seek to work with partners and stakeholders to reduce our underlying cost bass and to spread understanding and ownership of the many other ways the Council has to adjust to less money and changing local circumstances. The current refresh of the MTFS will continue this process.

13. Risks and Mitigation

13.1 The Council has identified an estimated budget challenge of £41.861m over the next 3 years, in light of this it remains imperative that the Council continues to develop and implement a robust and sustainable MTFS, which is aligned to the delivery of the Council's key objectives. The Council will have to identify savings options to eliminate this estimated budget gap whilst at the same time protecting, to the extent it can, the key services on which the public of Rotherham rely. Although Rotherham Council has a good record of delivering its Budget and achieving planned savings, meeting the estimated financial challenge and delivering a balanced budget going forward means that the Council will have to deliver all identified savings proposals and do so with limited margin for variability. Should savings options be rejected alternatives will have to be identified if the Budget is to remain within financial limits. This adds further potential risk to the budget process.

13.2 In addressing the financial challenge and developing a sustainable MTFS the budget process will need to direct available resources to maximise the social, economic, environmental and cultural benefit to citizens now and into the future. The proposed policy-led approach to the budget setting programme for 2017/18 to 2019/20 set out within this paper should ensure that future service delivery is in line with our policies and enables efficient and effective delivery of the Improvement Plan and, in due course, the revised Corporate Planning Framework and Community Strategy.

13.3 The scale of the financial challenge confronting the Council in the next 3 years and the significant planned changes in the local government finance regime (which will mean that spending plans are funded solely from locally raised income) make it essential that the Council's future position in the community as an advocate for Rotherham using its influence and acting to ensure the best outcome for Rotherham Citizens is clearly articulated and communicated to citizens and partners.

13.4 The assumptions underlying the budget projections both in relation in income and expenditure have been set out in Section 7 above as have the risks associated with them. The MTFS and Budget are included on the Council's Risk Register and it is intended that the MTFS will be subject to regular review and iterations reflecting both progress in setting the Council's Budget and external events.

Accountable Officer(s)

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Director of Legal Services: - Dermot Pearson
Head of Procurement (if appropriate):- N/A

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