

TRAFFORD BOROUGH COUNCIL

Report to: Executive
Date: 15 October 2018
Report for: Decision
Report of: Executive Member for Finance and the Corporate
Director of Finance and Systems

Report Title

Executive's Draft Revenue Budget Proposals 2019/20 & MTFS 2020-22

Summary

This report sets out the Executive's updated 3 year budget strategy proposals and draft revenue budget proposals for 2019/20 and Medium Term Financial Strategy (MTFS) for the period 2020-22.

The key summary of figures for the revenue budget, based on current estimates are:

- The draft overall budget movement for 2019/20 is an increase in the net budget of £407k or 0.25%, from £164.25 million to £164.65 million.
- The budget funding gap for the three years before applying any of these draft budget proposals is currently estimated to be £41.37 million comprising:
 - £29.30 million of budget pressures
 - £12.07 million of funding pressures
- This report presents a draft set of budget proposals to balance the planned budget in 2019/20, which in line with our three year strategy, contribute towards closing this budget gap by £16.03 million via a mixture of measures:
 - Additional funding and income generation
 - New savings proposals
- These proposals will now form the basis of consultation with members of staff and, where required, the general public and are therefore subject to change; the draft proposals are also subject to review by the Scrutiny Committee.
- It should be noted that if all the budget proposals in this report are implemented there currently still remains a residual budget gap of £25.35 million, comprising:
 - £2.36 million in 2019/20,
 - £10.38 million in 2020/21, and
 - £12.61 million in 2021/22

Final decisions will be taken by the Executive after taking into consideration further proposals to address the gap, all relevant matters and feedback, at which time a proposed budget will be put to full Council for approval on 20 February 2019.

	consultation arrangements. If the budget for a directorate is to be exceeded, which will result in a call on reserves, the Executive will need to identify the impact on reserves and when they will be replenished.
Equality/Diversity Implications	Equality Impact Assessment to be carried out supporting the budget proposals as appropriate.
Sustainability Implications	None arising out of this report.
Resource Implications e.g. Staffing / ICT / Assets	Human Resources – statutory processes have begun and any impact on staffing will be subject to consultation.
Risk Management Implications	The risks associated with each budget proposal to be carried out.
Health and Wellbeing Implications	Equality Impact Assessment to be carried out supporting the budget proposals as appropriate.
Health and Safety Implications	An impact assessment of each budget proposal to be carried out.

Other Options

The budget proposals included in this report assume an overall increase to the level of council tax of 3.99% in 2019/20 comprising an increase of 1% for the ‘adult social care precept’ to be earmarked for adult social care expenditure and 2.99% general increase in the ‘relevant basic amount’.

An alternative option could be made to increase its ‘relevant basic amount of council tax’ above these levels, however this would exceed the referendum limits, which would mean a local referendum was required.

Alternatively not increasing council tax by the level recommended in this report, subject to the final referendum level being notified in December, would increase the overall funding gap by up to £3.79m in 2019/20 which would mean further reductions to expenditure on council services were necessary.

Consultation

The report recommends that the draft and indicative proposals go forward for consultation (where necessary).

Reasons for Recommendation

To enable consultation with the public, businesses (s65 of the Local Government Finance Act 1992), stakeholders, staff and Scrutiny Committee to take place

Key Decision

This is a key decision currently on the Forward Plan: No

Finance Officer ClearanceGB.....

Legal Officer ClearanceJLF.....

CORPORATE DIRECTOR'S SIGNATURE



.....
To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.



TRAFFORD
COUNCIL

**Executive's
Draft Revenue Budget
Proposals 2019/20 &
2020-22 Medium Term
Financial Strategy**

15 October 2018

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**FOREWORD by the EXECUTIVE MEMBER for FINANCE
COUNCILLOR MIKE CORDINGLEY**

I am pleased to present the Council's draft budget report for the period 2019/20 to 2021/22 which sets out our spending priorities across the revenue budget, capital programme and the Dedicated Schools Grant (DSG) budgets. 2019/20 will be the tenth consecutive year that the Council has been challenged with having to set a budget faced with continuing reductions in funding. Over this period this has meant savings to council services of £138m have had to be made; this inevitably poses a strain on continuing to deliver the services that our community deserves.

In recent months the plight of local government finances has come under great attention as a number of local authorities struggle to cope and in some cases have shifted to a core service offer, barely above a statutory minimum. Trafford is already a low spend authority and therefore has limited flexibility available to address further cuts in funding. Our population is projected to increase by around 11% to 260,000 over the next twenty years, a slightly higher rate of increase than the national projection of 10%. Reflecting the national trend, the highest rates of population growth will be seen within the older age groups. The number of people aged 65 and over is projected to increase by 41%, whilst those aged 85 and over will increase by 55% bringing even greater challenges to the health and social care system. This coupled with a growth in the level of children in care or with special educational needs, places a great strain on this area of the budget which accounts for over half of our net expenditure.

Over the next few years there will be a number of issues which will have a direct and significant impact on the budget. The national Spending Review next spring will signal the expected levels of resources to be available to local government over the next three years and the promised green paper on the future of social care should offer some solutions for our social care services and how they can be afforded in the future.

2020/21 will see two major changes; the implementation of the Fair Funding Review which will be used to distribute resources across local government nationally and a reset of the business rate retention scheme. Both these changes are likely to impact on the level of resources we have to support our services.

Over the summer the Executive and Corporate Leadership Team have held a number of workshops to firstly take stock of the overall budget position, the assumptions underpinning the financial forecasts and the extent of the funding gap over the next three years and then to develop proposals to address that gap.

Since the 2018/19 budget was approved by Council on the 21st February 2018 there have been a number of budget changes, with the overall gross budget gap for the next three years standing at £41.37m, before the inclusion of previously proposed savings and policy choice funding increases.

Budget Movements	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Budget Gap after Feb 18 Savings and Policy Choice Funding Proposals	6,250	8,845	0	15,095
Reverse Adult Social Care Precept increase 1% (Feb 18)	950	0	0	950
Reverse 1.99% General Increase in basic Council Tax	1,890	1,956	0	3,846
Reverse Prior year Savings & Income programmes (Feb 18)	1,516	(1,672)	0	(156)
Gross Budget Gap before Feb 18 Savings and Policy Choice Funding Proposals	10,606	9,129	0	19,735
Budget Updates at Draft (Oct 18)				
Changes to Budget Assumptions	3,478	4,155	8,547	16,180
Changes to Funding	(1,989)	9,249	(1,803)	5,457
Revised Gross Budget Gap (Oct 18)	12,095	22,533	6,744	41,372

The 2019/20 revised gross budget gap is currently estimated at £12.10 million, at the draft budget stage, this has been partially met from a combination of the following:

- Policy Choice Funding Increases amounting to £3.79 million, comprising
 - Continuation of the previously proposed increase in Adult Social Care Precept of 1% to generate £0.95 million
 - Increase in the basic rate of Council Tax of 2.99%, generating £2.84m
- Income generation and savings amounting to £5.94 million, comprising:-
 - Income Generation of £2.88 million :
 - Service Delivery Savings of £3.06 million:

Summary of meeting the Revised Budget Gap	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Revised Gross Budget Gap (Oct 18)	12,095	22,533	6,744	41,372
Policy Choice Funding Proposals				
Reinstate Adult Social Care Precept increase 1%	(950)	0	0	(950)
General Increase in basic Council Tax to 2.99% (subject to referendum level)	(2,839)	(2,973)	(3,080)	(8,892)
Contribution from Budget Support/ Business Rate Smoothing Reserves	0	(7,300)	7,300	0
Total Policy Choice Funding	(3,789)	(10,273)	4,220	(9,842)
Savings and Income proposals	(5,943)	(1,885)	1,645	(6,183)
Revised Budget Gap (Oct 18)	2,363	10,375	12,609	25,347

This leaves a balance of savings still to be identified of £2.36 million before the budget for 2019/20 can be balanced and priority will be given to doing this before final budget proposals are presented to Council for approval in February 2019.

It is expected that the remaining budget gap will be addressed, in part, by additional net income to be generated from the Investment Strategy. To date total investments, including commitments, of approximately £136m have been made on the outright acquisition of three income generating investment assets, a commitment to support a local development by way of the provision of senior debt and proposals for the direct development of a number of sites in the borough. These initiatives are already delivering crucial additional revenue that is being used to support our budget plans and maintain public services. The capital programme includes a total budget of £300m for the Investment Fund, supported by prudential borrowing therefore if suitable opportunities can be identified within the remaining budget then this will allow the budget gap to be addressed. In order to provide additional headroom, it is recommended to increase the Investment Fund to £400m in 2019/20.

The capital programme is still under review and firm proposals for 2019/22 will be brought back to Executive in February 2019.

In July a report was presented to Executive which looked to address the budget gap on the High Needs block of the DSG. Whilst this was achieved for 2018/19 the pressures on the special education needs budget continues and there remains a budget gap over the period 2019/20 to 2021/22 of £2.1m, of which £1.4m is in 2019/20. Proposals to address this gap exist and are currently being considered, but given the nature of the services provided, the client groups affected and potential impact on individual schools it is unlikely that measures will be sufficiently developed to allow adequate consultation for 2019/20. Therefore it is proposed to seek agreement of the funding to a further top-slice of the schools block with the balance met from council reserves.

We promised to review the charge introduced during 2017/18 for the collection of green waste. Removing the charge will have the following impact on the budget:-

- Reduction in net income £1.45m
- Impact on waste levy £350k.

As long as the budget gap can be addressed for 2019/20 we will endeavour to remove the charge by considering alternative income generation and savings measures.

With a budget gap for the following two years of £22.99 million, the size of the challenge remains significant. For that reason budget proposals will continually be developed, so that sufficient time is afforded to consider all budget options at an early stage.

Councillor Mike Cordingley

A handwritten signature in black ink, appearing to read 'M. J. Cordingley', written in a cursive style.

Executive Member for Finance

1. FINANCIAL BACKGROUND

1.1 Background

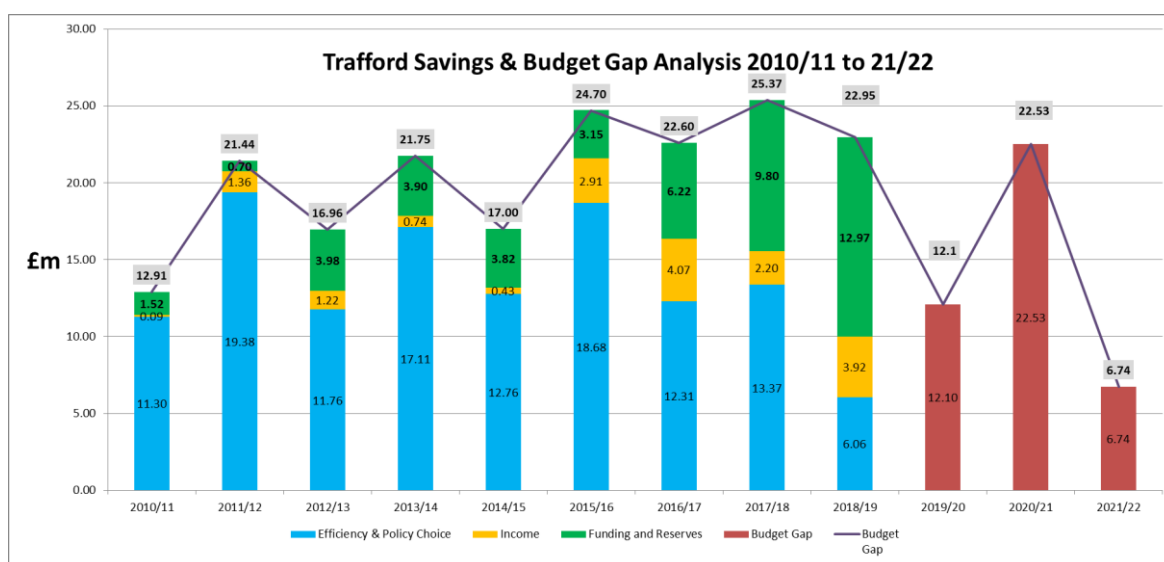
1.1.1 Since 2010 the Government has reduced the funding for Local Government as part of its efforts to reduce the fiscal deficit. This equates to a 28.6% real terms reduction in an authority's spending power, taking into account council tax.

1.1.2 Alongside reductions in funding, local authorities have had to deal with growth in demand for key services, most notably adult's and children's social care; this demand is expected to continue. Other pressures have also been faced including higher national insurance contributions, inflationary pressures on goods and services, the apprentice levy and the National Living Wage.

1.1.3 In recent years Government has provided some extra funding for social care by way of specific grant and combined with the introduction of the adult social care precept this has meant that the rates of reduction to overall funding have levelled since 2016/17 and will remain relatively flat until 2019/20.

1.1.4 This has meant that by 2019/20 the total value of funding gaps caused by the expenditure pressures and funding reductions since 2010/11 is £197.8m, of which £12.1m relates to 2019/20.

1.1.5 The overall funding gap over the next three financial years is £41.4m.



1.2 Local Government Finance Settlement

1.2.1 The 2019/20 Local Government Finance Settlement is expected to re-confirm the funding offered in accepting the four year settlement deal and can be found in the table below. This shows a further reduction in Revenue Support Grant of £5.00m, which impacts on the level of baseline funding retained by the Council (See Annex C).

Table 1: The Funding Offer	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	22,989	15,276	10,303	5,299
Transitional Grant	465	458	0	0
Rural Services Delivery Grant	0	0	0	0
Total	23,454	15,734	10,303	5,299

1.2.2 **Fair Funding** - The Ministry of Housing, Communities and Local Government (MHCLG) is currently working on a fair funding review for local government to include a complete review of the relative needs and funding required by different councils to fund their services. This is in recognition that the current methodology is over ten years old and has not been reviewed since 2013/14. The new methodology will be effective from 2020/21 and at this stage no further reduction in baseline funding after 2019/20 is included in the budget assumptions.

1.2.3 **Local Government Finance Settlement Technical Consultation** over the summer which included a number of proposals for the 2019/20 Settlement. This included the intention to confirm the final year of the multi-year settlement, potential changes to the baselines used in the calculation of the New Homes Bonus and the principles around council tax increases. Government is minded to continue the core principles around council tax referendums as agreed for 2018/19, ie up to 3% for unitary authorities and a continuation of the Adult Social Care precept, with an additional 2% flexibility for unitary authorities. This is subject to total increases not exceeding 6% between 2017/18 and 2019/20. The Council has a remaining flexibility of a further 1% in 2019/20 based on the 5% increase over the period 2017/18 and 2018/19.

1.3 Business Rates

1.3.1 In April 2015 Greater Manchester (GM) and Cheshire East joined together as a business rate Pool; Cheshire West and Chester later joined the Pool in April 2016.

1.3.2 This means that any levy on growth, ordinarily payable to the Government, is retained by the Pool and has allowed the retention of a significant level of funds in the GM and Cheshire areas.

1.3.3 In the 2015 spending review and autumn statement the government announced plans to completely phase out Revenue Support Grant and pave the way for the implementation of 100% business rates retention in 2020/21.

1.3.4 In February 2017 the 2017/18 Local Government Finance Settlement confirmed a number of areas including GM, Liverpool City Region, West Midlands, West of England, Cornwall and the GLA will be piloting 100% Business Rates Retention from 1st April 2017. MHCLG has recently

announced that this pilot status will remain for GM in 2019/20 until the introduction of a 75% retention scheme nationally by 2020/21 and will then consider the continuation of 100% business rates retention in devolution deal area pilots as part of our wider changes to the business rates retention system.

- 1.3.5 These two initiatives have allowed the Council to benefit quite significantly from the scheme for business rate retention above its baseline funding level. The total benefit supporting the budget in 2018/19 is £9.89m, of which £4.67m is due to participation in the 100% pilot.
- 1.3.6 From 2020/21 MHCLG will undertake a full reset of the retention scheme first introduced in 2013/14. This will put at risk the majority of the benefit the Council currently receives and this potential reduction is factored into these projections from 2020.

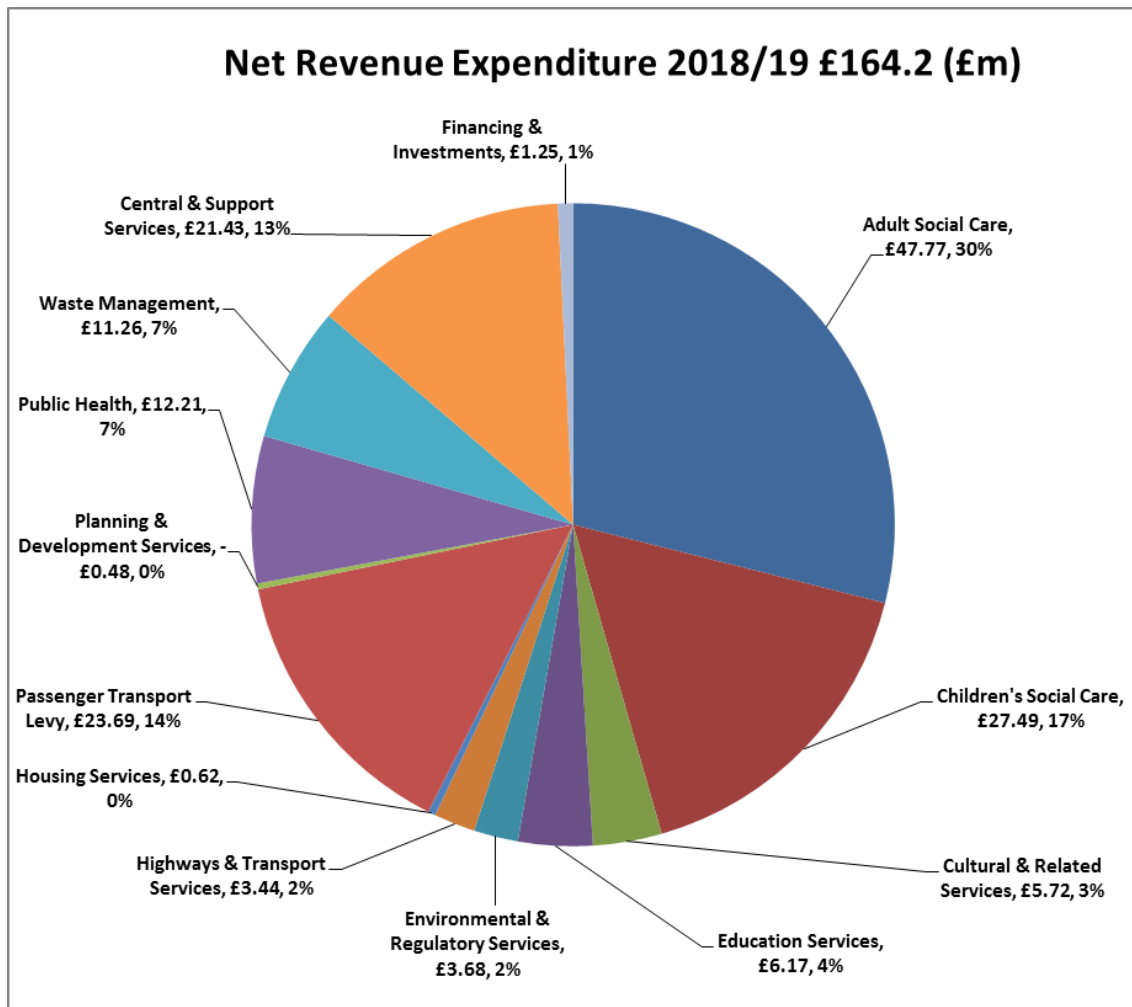
1.4 Summary

- 1.4.1 The impact of the funding reduction in 2019/20 included in the four year settlement has been known. It is highly likely that the impact of the fair funding review and business rate reset will have a significant financial impact on the council. It is feasible that the council could lose out financially from both areas but at this stage the only assumption in these forecasts is for a loss in business rate income caused by the reset, albeit the council continues to argue that it retains historic growth in business rate revenues where these are directly related to Council investment, without which the growth would not have occurred.
- 1.4.2 The loss of business rate revenue in these forecasts from 2020/21 is approximately £10m which is a cautious stance. Given the size of the potential loss of funding if this were to arise no further reduction in baseline funding has been made. There is also a possibility that MHCLG will allow for a damping mechanism which if included would mitigate the impact of any funding reduction.

2. 2018/19 BUDGET & MONITORING POSITION as at PERIOD 4 (July 18)

2.1 Budget 2018/19

2.1.1 The Council's current gross budget for 2018/19 is £453.57m however this includes specific funding of Dedicated Schools Grant and Housing Benefit. The Council's net controllable budget agreed by Council in February 2018 was £164.2m.



2.2 Revenue Budget Monitoring 2018/19 Period 4 (July 2018)

2.2.1 Delivery of the 2018/19 budget is critical to ensure that budget forecasting for future years can be done on a sound basis. The period 4 (July 2018) revenue budget monitoring report forecasts an overspend of £1.958m as follows:

Table 2: Budget Monitoring results by Service	2018/19 Budget (£000's)	Forecast Outturn (£000's)	Forecast Variance (£000's)	Percentage
Children's Services	32,373	34,333	1,960	6.1%
Adult Services (Inc. Public Health)	60,062	60,533	471	0.8%
Place	23,874	23,686	(188)	(0.8)%
People	2,762	2,838	76	2.8%
Finance & Systems	6,997	6,994	(3)	(0.0)%
Governance & Community Strategy	7,508	7,639	131	1.7%
Total Directorate Budgets	133,576	136,023	2,447	1.8%
Council-wide budgets	30,670	30,181	(489)	(1.6)%
Net Service Expenditure variance	164,246	166,204	1,958	1.2%
Funding				
Business Rates (see para. 14)	(67,619)	(67,619)	-	
Council Tax (see para. 11)	(94,497)	(94,497)	-	
Reserves	(1,630)	(1,630)	-	
Collection Fund surplus	(500)	(500)	-	
Funding variance	(164,246)	(164,246)	0	0.0%
Net Revenue Outturn variance	0	1,958	1,958	1.2%
Dedicated Schools Grant	128,036	128,147	111	0.1%
Public Health	12,178	12,378	200	1.6%

2.2.2 The current in-year variations contain a number of items with those notable items listed below which has been considered in determining the budget proposals for 2019/20:

- Children's Services - continuing rise in demand and the increasing costs of Children's placements.
- Adult Services - increase in the cost of care reflecting the increased number of referrals and complexity of cases and the shrinking bed base.
- Place – staff vacancies and higher than expected income levels are partly offset by an increase in running costs above budget across the service.
- People – running costs above budget and the one-off impact of a management restructure.
- Finance & Systems – minor variations in savings compared to target relating to vacancies and running costs.

- Governance & Community Strategy – running costs above budget and a shortfall in income compared to target are partly offset by savings from vacancies across the service.
- Council-wide budgets – additional income from the Investment Strategy and a release of some contingency budgets have been partly offset by higher than anticipated running costs.

2.2.3 At this stage of the year a cautious view is taken when projecting budgets and a prudent level of contingency budget remains to cover the risks associated with demand led services, particularly for adults and children's social care. Despite continuing efforts to control expenditure the Council is still seeing an increase in the number of children in care and in recognition of these in-year pressures a further £500k has been included in the 2019/20 budget projections. This position will be considered further before final budget proposals are brought back to Executive in February 2019.

3. BUDGET PROCESS 2019/20

3.1 Budget Approach 2019/22

3.1.1 Members of the Executive and the Corporate Leadership Team have held a number of budget workshops over the last few months to review the overall budget position. This has included a full review of all assumptions used in developing the budget plans, to ensure they are still relevant and up to date, and a review of all continuing savings programmes. To bridge the budget gap for 2019/20 a number of new savings proposals have been identified and business cases developed. Whilst there still remains a small gap in 2019/20 it is expected that the maturing Investment Strategy and a further review of service savings initiatives will identify further opportunities to close this; albeit a further review of all assumptions, including the in-year monitoring position will be undertaken before setting the final budget for 2019/20 in February 2019.

3.2 Budget & Staff Consultation

3.2.1 Proposals in this report will require consultation with the public and businesses, with the form of consultation to be developed before the end of October 2018.

3.2.2 Details on these draft budget proposals will be made available on the Council's website via the 2019/20 budget pages.

3.2.3 Where any budget proposal has the potential to affect staff there will be a requirement to consult separately internally through routine staff consultation arrangements.

3.3 Scrutiny Review

3.3.1 A number of Scrutiny reviews will be held during October and November, with the first meeting held on 3 October 2018 to review the funding gap in the Council's Medium Term Financial Plan (MTFP) and the assumptions underpinning the overall gap.

3.3.2 On the 7 November 2018 the Leader of the Council will give a presentation to Scrutiny Committee setting out the 2019/20 draft budget proposals contained within this report, which will enable Scrutiny members to review the budget proposals and feedback any comments in January 2019.

4. BUDGET UPDATES & PROPOSALS

4.1 This section identifies:-

- The revised funding gap for 2019/20 and later years.
- The draft set of budget proposals to partially close the revised funding gap.

4.2 Updated Funding Gap

4.2.1 The MTFS position reported to Council in February 2018 Budget Report showed an overall budget gap for 2019/20 and 2020/21 of £15.095m. If the proposed increase in Council Tax and prior year savings programme are excluded, this increases the underlying budget gap to a gross figure for 2019/20 and 2020/21 to £19.74m

4.2.2 Since February the Medium Term Financial Plan has been updated to include the financial year 2021/22, along with changes to cost pressures and non-policy choice funding for 2019/20 and 2020/21. These changes have resulted in the budget gap over the next three years increasing from £19.74 million to £41.37 million and the table below summarises these budget movements with a full subjective breakdown provided in Annex B.

Table 3: Budget Movements	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	Total (£'000)
NET BUDGET GAP (Budget Feb 18)	6,250	8,845	0	15,095
Reverse Adult Social Care Precept increase 1%	950	0	0	950
Reverse 1.99% General Increase in basic Council Tax	1,890	1,956	0	3,846
Reverse Prior year Savings & Income programmes (Feb 18)	1,516	(1,672)	0	(156)
Gross Budget Gap before Feb 18 Savings and Policy Choice Funding Proposals	10,606	9,129	0	19,735
Movements in Budget Assumptions :				
Impact of loss of Transformation Funding	0	3,257	0	3,257
Pay Award +1% to 2% (previously assumed 1%)	0	730	1,671	2,401
Demographic Pressures Children's Services	500	500	2,500	3,500
Changes to Waste Levy Assumptions and Mandatory Recycling	203	152	507	862
TTH contribution to lifecycle replacement	116	0	0	116
Contractual Obligations and Inflation	281	199	2,227	2,707
Living Wage assumptions and re-phasing	200	(74)	1,572	1,698
Release of Council Tax Surplus to Budget Support Reserve	600	(600)	0	0
Additional cost of new pay structure	345	0	0	345
Waterside Arts Centre	100	0	0	100

Housing Benefit Overpayment Recovery (17/18 saving ending)	300	0	0	300
0.5% Pension saving assumed to stop in 19/20	350	0	0	350
Other changes in Budget Assumptions	483	(9)	70	544
Movements in Budget Assumptions	3,478	4,155	8,547	16,180
Movements in Funding :				
Additional Business Rates Growth 17/18 Released in 19/20	(1,181)	1,181	0	0
Increase in Council Tax Base (number of properties)	0	0	(501)	(501)
Increase in growth in Council Tax Base to 1% (previously 0.5%)	(491)	(527)	(571)	(1,589)
Release of Prior Year Council Tax Surplus	(600)	600	0	0
Changes in Bus Rate Assumptions (including Reset)	283	7,995	(731)	7,547
Movements in Funding	(1,989)	9,249	(1,803)	5,457
TOTAL BUDGET MOVEMENTS	1,489	13,404	6,744	21,637
REVISED BUDGET GAP (Oct 18)	12,095	22,533	6,744	41,372
ACCUMULATIVE BUDGET GAP (Oct 18)	12,095	34,628	41,372	

4.3 Budget Assumptions and Funding

4.3.1 Budget pressures : £29.3 million

An overall increase in cost pressures of £29.3m over the next three years, the main features are detailed below with a summary of the base budget assumptions shown in Annex A:

- Pay: includes a core provision for a 2% pay award, with some lower grades receiving up to 7.3% in 2019/20. An impact of £5.23m over three years.
- Living Wage: an allowance of £5.07m over the next three years has been provided, which covers projected increases in pay, for external care staff, up to the target National Living Wage of £9 per hour by 2020.
- Inflation: relates to non-staffing budgets and includes a general allowance of 2%; plus other contractual inflation totalling £6.79m over the next three years.
- Levies: includes allowances for waste disposal, transport and Environment Agency (flood defence).
- Demography: an annual budget increase to reflect the increasing number of adults & children requiring social care of £7.5m over the next three years.

- New Income: including an allowance of £(2.66) million for the Council's share of the additional funding of £1.5bn the Government is providing for the improved Better Care Fund.
- Expected Grant Reductions: expected reduction in New Homes Bonus £267k to four year allocations and a reduction in the DSG recharge £200k.
- Treasury Management: includes investment interest and borrowing costs, a reduction of £1.12m over three years, represents an increase in investment income in line with projected increases in investment rates and savings in maturing debt costs.
- Other: totalling £5.98m over three years, includes cost pressures of £3.26m in 2020/21 after the loss of transformation funding and also reversals in 2019/20 of prior year savings which were either one off in nature or coming to an end. These include the refund of AGMA overpayments £413k, early retirement savings on pension payments £350k, the savings benefit from the advanced pension payment £757k, Housing Benefit overpayment recovery £300k, and allowances for other minor service pressures and contingency items.

4.3.2 Funding Pressures : £12.08 million

Using the 2018/19 funding of £164.25 million as the baseline, this is estimated to reduce to £152.17m over the next three years, resulting in a funding pressure of £12.08 million. The main feature being the reset of the Business Rates Growth Pilot in 2020/21 which is being partially offset through an increase in the Council Tax base as detailed below:

- Council Tax: a 1% allowance per annum for the estimated growth in the number of properties, increasing the Council Tax base in each of the next three years. This will generate approximately £0.95m per annum
- Council Tax release of prior years' accumulated surplus will contribute an additional £0.9m on a one off basis in 2019/20 of which £0.6m will be transferred to the budget support reserve to support future years' budgets.
- In 2018/19, there was a one off contribution from the budget support reserve. Its removal creates an ongoing funding pressure of £1.63 million.
- Business Rates: The total estimated reduction in Business Rates over three years is estimated at £13.0m, largely as a result of the reset of the growth pilot of £11.9 million, loss of the Revenue Support Grant component of the Baseline Funding Level of £5.0 million, offset by £3.9 million of inflation indexation. Full details of which are shown in Annex C with a summary in the table below.

Table 4: Benefit from Business Rates	2018/19 100% PILOT £000	2019/20 100% PILOT £000	2020/21 100% PILOT £000	2021/22 100% PILOT £000
Core Baseline Funding	35,031	35,732	36,447	37,176
Revenue Support Grant	10,303	5,299	5,299	5,299
Public Health Grant	12,391	12,065	12,065	12,065
Total Baseline Funding Level (BFL)	57,725	53,096	53,811	54,540
Business Rates Benefit of 100% Pilot	9,895	12,005	84	86
Total Benefit from Business Rates	67,620	65,101	53,895	54,625
Yearly Change				
Change in BFL		(4,629)	715	729
Change in Business Rates Benefit		2,110	(11,921)	2
Yearly Change		(2,519)	(11,206)	731

4.4 Closing The Revised Budget Gap

4.4.1 The table below shows the draft budget position following the latest round of budget proposals and policy choice funding updates. A full detailed listing of savings and income proposals can be found in Annex D.

Table 5: Summary of the Budget Proposals	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Revised Gross Budget Gap (Oct 18)	12,095	22,533	6,744	41,372
Policy Choice Funding Proposals				
Reinstate Adult Social Care Precept increase 1%	(950)	0	0	(950)
General Increase in basic Council Tax to 2.99%	(2,839)	(2,973)	(3,080)	(8,892)
Contribution from Budget Support/ Business Rate Smoothing Reserves	0	(7,300)	7,300	0
Total Policy Choice Funding	(3,789)	(10,273)	4,220	(9,842)
Savings and Income proposals *	(5,943)	(1,885)	1,645	(6,183)
Revised Budget Gap (Oct 18)	2,363	10,375	12,609	25,347

* The Savings and Income proposals include those brought forward from February 2018 adjusted to reflect latest estimates. Full details of all Savings and Income proposals are shown in Annex D.

4.4.2 New Income Proposals (October 2018):

The latest round of budget proposals generated additional income proposals of £3.13m for 2019/20, to include those listed below, with a full detailed listing provided in Annex D:

- £1.50 additional income from the Property Investment Strategy.
- £1.5m from an increase in the dividend from our shareholding in the Manchester Airport Group (MAG).
- £47k from a review of charges for environmental health services, licensing and building control.
- £84k income from a review of car parking charges

4.4.3 New Savings Proposals (October 2018):

The latest round of budget proposals generated new savings proposals of £2.85m in 2019/20, to include those listed below, with a full detailed listing provided in Annex D:

- £371k from a reduction in the use of external children's home use
- £202k from the creation of new Post 16 accommodation
- £560k from adult's programmes, Let's Talk Model and Right Care for You
- £30k from a review of legal costs
- £100k (one off) from use of a smoothing reserves
- £50k reduction in insurance costs
- £218k by removing the General Inflation provision
- £600k reduction in the General Contingency budget
- £200k by restructuring our debt
- £517k of other efficiency and policy choice savings

4.4.4 Additional Funding (October 2018):

Council Tax: although the referendum principles and the deemed 'excessive' amount are unknown until the final Local Government Finance Settlement, the Council propose to increase the level of Council Tax in 2019/20 by:

- 2.99% general increase in the 'relevant basic amount'
- 1% adult social care precept

This assumes the Government will continue to allow Local Authorities to increase their Council Tax by less than 3% without the need to hold a referendum i.e. allow a 2.99% general increase in the 'relevant basic amount'.

4.4.5 In summary, there are £5.94m of new income and savings proposals (including the impact of continuing programmes from 2018/19).

4.4.6 Based on current assumptions and proposals the 2019/20 net budget will increase by £407k or 0.25%, from £164.25m to £164.65m.

4.4.7 A full subjective summary providing a breakdown of the 2019/20 net budget can be found in Annex E.

Table 6: <i>The 2019-22 Budget</i>	October 2018		
	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
Budget			
Service:			
Children's Services	33,567	35,324	37,081
Adult Services (incl. Public Health)	60,923	68,399	72,618
Place	32,860	34,342	35,907
Central Services (*)	17,691	18,585	19,495
Total Service Budgets	145,041	156,650	165,101
Council-wide Budgets	21,974	20,520	22,261
Net Budget	167,015	177,170	187,362
Funding:			
Council Tax	(100,149)	(103,238)	(107,390)
Business Rates: Local Share	(147,366)	(150,312)	(153,319)
Business Rates: Tariff Payment	94,270	96,502	98,780
Business Rates: Assumptions, Growth, S31 Grants, GM Pilot	(12,007)	(84)	(86)
Funding	(165,252)	(157,132)	(162,015)
Movement in Reserves			
Smoothing Reserve	600	(7,300)	0
Movement to/(from) Reserves	600	(7,300)	0
Cumulative Budget Gap	2,363	12,738	25,347
Annual Budget Gap	2,363	10,375	12,609

(*) Central Services consists of the new Directorate's of People, Finance and Systems and Governance and Community Strategy

5. ROBUSTNESS, RISKS & RESERVES

5.1 Robustness and Risks

5.1.1 The law requires that the Council sets a balanced and robust budget, which is sufficient to meet its legal obligations, and then its aspirations. This requires all plans to be costed, forecasts and estimates to be checked for reasonableness, and risks to be assessed across the many varied services the Council provides. This also includes an assessment for emergencies, severe weather and other service and strategic risks.

5.1.2 Robustness does not guarantee that all possible eventualities are identified, or that all budget estimates are exact. Actual income and expenditure is likely to vary from the established budgets, but in the round these will compensate, and the approved budget need only be sufficient to meet overall expenditure requirements.

5.1.3 In exercising their statutory duty the Corporate Director for Finance and Systems, in conjunction with the Corporate Leadership Team, will take all matters and issues into consideration and will make a reasoned assessment of whether the budget is sufficient and robust. The Executive will ensure the minimum reserve level is maintained to ensure the Council can meet its obligations.

5.1.4 The Council faces various financial risks to include:

- The ability to deliver savings within agreed timescales.
- Potential legal challenges to decisions.
- Fees & charges income differing to assumptions.
- Variations to external funding and grant allocations.
- Demographic pressures.
- Inflation & Interest Rates differing to assumptions.
- Business Rates growth & the 100% retention scheme pilot and potential costs with backdated appeal costs.
- Variations to external levies & contracts.
- Future changes to legislation and risk from Brexit
- Devolution & integration of Health & Social Care (also an opportunity)

5.2 Reserves

5.2.1 It is important that the Council has a strategic approach to the creation and use of reserves and it is therefore considered prudent and timely to assess the optimum levels of reserves required by the Council in light of the current Medium Term Financial Plan, whether the current arrangements for their use are working well and whether alternative arrangements could result in the better use of resources, more effective investments and improved financial management.

5.2.2 Reserves are set aside so that future plans can be afforded or to avoid infrequent or emergency expenditure impacting on the 'normal operational budget. It is a legal requirement to set aside provisions, and a minimum level of generally available reserve and it is best practice to ensure that there are other sufficient reserves available to meet further needs to ensure an achievable and sustainable budget.

5.2.3 The Council usable reserves at 31st March 2018 stood at £75.02m, of which £43.23m relates to Earmarked revenue reserves as shown below along with their projected usage over the 3 year planning period.

Table 7: Usable Reserves	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m
Specific	6.82	6.06	4.95	4.05	4.01
Smoothing	8.36	7.14	5.93	4.77	4.77
Business Rates Growth Pilot	6.69	6.69	6.69	0.00	0.00
Budget Support	6.58	4.95	5.55	4.95	4.95
Service C/fwd	4.56	2.70	2.45	2.32	2.32
Investment Fund	4.96	2.94	0.00	0.00	0.00
NDR Deficit/Levy	5.26	0.00	0.00	0.00	0.00
Earmarked Reserves	43.23	30.48	25.57	16.09	16.05
General Reserve	6.00	6.00	6.00	6.00	6.00
Capital Related Reserves	17.48	6.29	5.36	2.14	0.00
School Related Reserves	8.31	7.61	7.38	7.38	7.38
Total Usable Reserves	75.02	50.38	44.31	31.61	29.43
Provisions	42.59	42.59	42.59	42.59	42.59
Total Usable Reserves & Provisions	117.61	92.97	86.90	74.20	72.02

5.2.4 The reserves are categorised into a number of priority areas including a general reserve, earmarked reserves and other statutory or specific reserves.

5.2.5 **General Reserve:** the Council is required by law to maintain a minimum level of reserves to meet unexpected or emergency expenditure, in February 2016 Council agreed to set the minimum level of the General Fund Reserve at £6.00m and maintained this level in February 2017 and 2018.

5.2.6 **Earmarked Reserves:** the Council holds other Earmarked reserves to fund both revenue and capital expenditure which are held primarily to fund known

future commitments but also act as service contingencies for unexpected events and to cover future risks, which include:

Budget Smoothing and Support

- Budget Support: established in 2015/16 to provide a cushion against volatility in budget funding and the significant level of savings required over the medium term.
- Business Rates Growth Pilot: established in 2017/18 to hold the surplus funds generated from the 2016/17 and 2017/18 Business Rates Growth Pilot. Is designed to cover volatility in the fluctuation of business rates and provide a cushion when the business rates system is reset in 2020/21. It is intended to draw down £6.69m in 2020/21.

Directorate

- Specific: mainly consists of the Insurance Reserve to cover potential future claims as a result of past events, the Employment Rationalisation Reserve for the costs of severance and related costs of structural change over and above the revenue budget provision and Transformation Reserve.
- Smoothing: established to reduce or smooth out volatility in the revenue budget where normal operating expenditure is not always similar year-on-year, mainly to dampen variations to the Waste Levy.
- Service Carry Forward: represents accumulated savings on directorate budgets in previous years. These amounts are anticipated to be utilised to support expenditure on transformational projects.

Strategic Priority

- Investment Fund: established in 2016/17 from revising the MRP policy, setting aside £9.93m between the years 2016/17 to 2019/20 and this has been committed to support future strategic investments which generate income returns to support the budget.

5.2.7 **Statutory or Specific** purposes only:

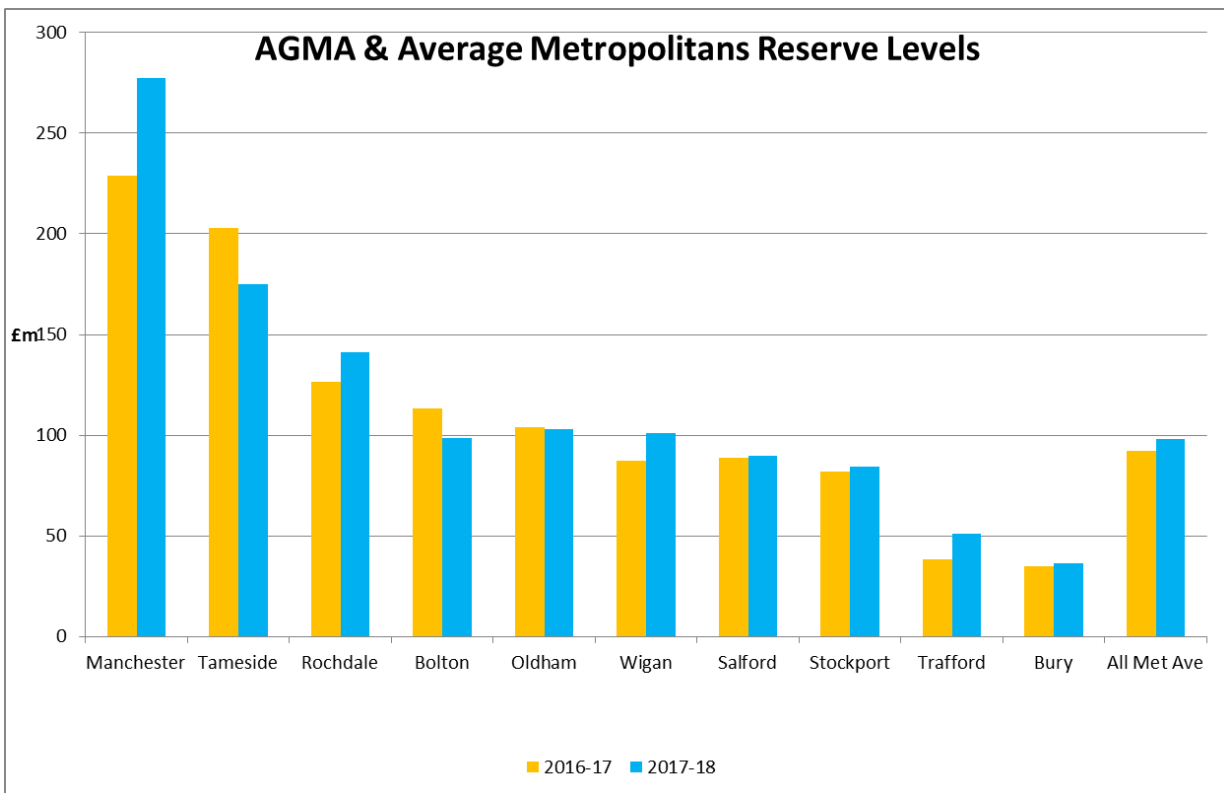
- Capital reserves: consist of capital receipts, grants and contributions which can only be used to fund capital expenditure and are all allocated to support the current capital programme
- Schools reserves: represent the carry forward balances of individual school surpluses & deficits

5.2.8 Balancing the annual budget by drawing on Earmarked reserves may be viewed as a legitimate short-term option but it is not prudent for these reserves to be deployed to finance recurrent expenditure. Holding these types of reserves is primarily to assist in cushioning the effects of financial shocks and aids resilience.

5.2.9 It should be noted that the Council has significantly lower levels of reserves than its neighbours and therefore any decision around the use of Earmarked reserves to support its budget decisions cannot be taken lightly.

5.2.10 The level of Earmarked reserves the Council holds is in part reflective of the past funding levels of the council in comparison to its need to spend. This means that, as the lowest funded Council in Greater Manchester, it has accumulated one of the lowest levels of Earmarked reserves.

5.2.11 Although Trafford's positioning did change in 2016-17 with Earmarked reserves increasing by c.£10m, with the exception of the Investment Fund, this will mainly be required to cover the Council's share of the Business Rates deficit due to be recouped in 2018-19, as a result of the higher than anticipated appeals requirement.



Data source: National Statistics: Local authority revenue expenditure and financing England: 2017 to 2018 individual local authority data - outturn: [Revenue Outturn \(RO\) 2017-18](#)

6. TRANSFORMATION FUNDING

6.1 Background

6.1.1 The Trafford locality was awarded £22m in October 2017 from the Greater Manchester (GM) £450m Transformation Fund delegated to Greater Manchester Heath & Social Care Partnership (GMHSCP) by NHS England.

6.1.2 This was to help secure a sustainable health and social care economy by 2021, in order to build a strong foundation for delivery of Trafford's vision for 2031. The investment aims to put in place:-

- An integrated organisation for Trafford Council and NHS Trafford Clinical Commissioning Group (CCG)
- A new model of care for community health, primary care and social care services, to underpin Trafford's Local Care Alliance (LCA) which will also be established, designed and developed
- An optimised offer from the Trafford Co-ordination Centre (TCC)
- Care Complex which will provide coordinated care for people who are at risk of developing conditions, or exacerbating existing conditions, and allow us to proactively manage them in intermediate care facilitating their onwards journey home.
- A range of enabling activity e.g. workforce development, estates redesign, communications and engagement.

6.1.3 This work will support all Trafford's residents and GP registered population, with interventions specifically targeting those people in the borough with poorer health outcomes and the inequalities and performance issues that need to be tackled.

6.1.4 The £22m is pump priming money which is predicated on the basis that benefits will be achieved over this time period, which can then be reinvested to fund expenditure both within that time period and beyond. The benefits are also expected to exceed on going expenditure and therefore contribute towards reducing the overall gap in funding envisaged by the Trafford locality.

6.1.5 In addition to pump priming monies the Council and the CCG also agreed to provide £10.6m of match funding giving an overall fund value of £32.6m.

6.1.6 Over the four years of the fund, costs are estimated to be £52m funded from GMHSCP (£22m), match funding (£10.6m) and associated benefits (£19.4m).

6.1.7 The table below sets out at a high level how the expenditure of £52m and associated benefits are split between the Council and the CCG.

Establishment	Expenditure Over the 4 Years £m	Funding of Expenditure				Annual Recurrent Benefits by 20/21 £m	Annual Recurrent Net Costs by 20/21 £m	Net Recurrent Benefits by 20/21 £m
		GMHSCP £m	Match funding £m	Benefits £m	Total £m			
Council	15.9	6.2	6.0	3.7	15.9	7.7	3.3	4.4
CCG	34.4	14.1	4.6	15.7	34.4	18.0	7.4	10.6
Joint	1.7	1.7			1.7			
Total	52.0	22.0	10.6	19.4	52.0	25.7	10.7	15.0

6.1.8 The schemes within the Council are as follows:-

➤ **Evidence based operating model(s)**

An agreed overarching model will be employed to add empowerment and consistency across social care. The new operating model will be co-designed with partners in line with Edge of Care, the Stronger Families model and asset based approach.

➤ **Asset Based Assessment & Support based on the Let's Talk model**

Trafford has been establishing the Asset Based Community Development (ABCD) model through partner wide training since 2015. Aligned to this is the 'One Trafford Response' place based proof of concept which is testing the key worker approach ahead of wider roll out within the neighbourhood model. Another proof of concept of asset based delivery is the 'Let's Talk' programme in adult social care. Both models are based on the premise of staff 'doing the right thing' for service users rather than be driven by the assessment process.

➤ **Early Help Provision Review**

A wholesale review of commissioned prevention and early help provision is being undertaken alongside mapping of non-commissioned provision and an analysis of need across the all age continuum.

➤ **Wholesale caseload reviews and reassessments in adult and children's social care**

Adult social care cases have been going through a process of reassessment since the eligibility policy was revised in 2014. It is expected that this work will conclude in 2019 but needs to have a greater focus on Learning Disability clients, particularly those living in our commissioned supported living placements.

In order to ensure the 1,500 children receiving social care support are in the most appropriate threshold for their circumstances and needs, a dedicated review team will be employed to undertake case reviews of all children, focusing on Looked After Children placements in the first instance.

➤ **Implementation of a 'Risk Based Reassessment' approach**

New software will be implemented in adult social care to identify cases which can be reassessed using a more proportionate method against their known risk factors; this will lead to a more efficient approach for both social worker and service user. This will form part of the system wide identification and assessment of people at risk and may be supported in future by TCC.

➤ **Supported Living Review**

A review of all commissioned supported living provision across Trafford will be undertaken to ensure appropriate provision is available against need and services are value for money.

➤ **Care Closer to Home Service Remodelling**

This aspect of the programme will redesign a range of services which currently support adults following hospital discharge or work to prevent

admission following a health crisis. The services will be redesigned to ensure pathways and interventions have the greatest benefit. In addition, the home care market will be reviewed.

- 6.1.9 The above schemes should secure savings of £7m by the end of 2018/19 and these will continue into 2019/20 looking to secure a further £0.7m linked to the saving proposals put forward by the Children and Adults Directorates within this report.

7. SCHOOLS FUNDING & BUDGETS 2019/20

7.1 Background

7.1.1 Schools are funded from ring-fenced grants, the most notable of which is the Dedicated Schools Grant (DSG). This funding cannot be used for any other Council function, and essentially schools operate within their own fund with any under or over expenditures being taken forward into future years. The DSG can be divided into four main areas:

- Schools Block (SB) - approximately £159m which essentially funds schools' budgets. This includes £70m for academies. A National Funding Formula (NFF) was introduced in 2018/19. It was intended that there would be a 'soft' formula for 2 years where the NFF is used to set notional budgets for each school which will be aggregated to give the total schools block. After being consulted, Trafford schools and Funding Forum opted to use the NFF rates from 2018/19 and 2019/20. It was the Government's intention that a 'hard' formula be introduced in 2020/21, but this has been delayed for at least a further year.
- Central Schools Services Block (CSSB) – £1.5m. This block reflects the ongoing local authority role in education and is reducing year by year.
- High Needs Block (HNB) – provisional allocation £26m which primarily supports Special Educational Needs (SEN) expenditure. This includes £12m to fund Trafford Special Schools.
- Early Years Block (EYB) - approximately £17m, which funds educational, provision for 2 to 5 year olds in both LEA Schools and Private, Voluntary and Independent (PVI) settings.

7.1.2 Provisional DSG allocations for 2019/20 have been recently announced and whilst a further revision to the 2019/20 figures will be made to reflect pupil number changes, at this stage they indicate a £4.06m increase on 2018/19.

Table 8 DSG Allocations	2018/19 (£m)	2019/20 (£m)	Difference (£m)
Schools Block	155.603	159.203	3.60
Central School Services Block	1.558	1.521	(0.037)
High Needs Block	25.029	25.527	0.498
Early Years Block	16.796	16.796	0
Total	198.986	203.047	4.061

7.1.3 The increase in the Schools Block represents:-

- A 1% per pupil increase for each school in 2019/20 through the NFF compared to the 2017/18 baseline;
- The minimum per pupil funding levels have increased to £3,500 for all primary schools and £4,800 for all secondary schools that have pupils in years 10 and 11; and

- The gains cap has increased so that schools can attract gains of up to 6.09% against their 2017/18 baselines (the minimum per pupil levels are not gains capped).

7.1.4 The increase in the High Needs Block is due to a funding floor which ensures all local authorities will attract at least 1% allocation gains compared to 2017/18 baselines.

7.1.5 Other grants received by schools include Pupil Premium Grant (PPG) of £5m which is intended to bridge the attainment gap for pupils in receipt of free school meals and pupils who are or have been in care. In addition to this there is the Universal Infant Free School Meals Grant £3m, 6th Form Funding £1.7m and PE and Sports Grant £1.1m.

7.2 Summary Position 2018/19

7.2.1 The latest monitoring position reflected in the period 4 budget monitor presented to Executive on 17 September 2017 indicated a £111k overspend in 2018/19. This is mainly driven by expenditure pressures in the High Needs Block (See Para 7.3) which will be funded from the other DSG blocks. The projected overspend of £111k will be financed from the central DSG reserve in the event the position cannot be brought back into line by the end of the year.

Table 9 P4 monitoring	2018/19 Budget (£m)	2018/19 Expected Outturn (£m)	Difference (£m)
Schools Block	155.603	154.771	0.832
Central School Services Block	1.558	1.487	0.071
High Needs Block	25.029	26.197	(1.168)
Early Years Block	16.796	16.642	0.154
Total	198.986	199.097	(0.111)

7.2.2 The level of central DSG reserve at 1 April 2018 was £929k and whilst the majority is ring-fenced to support specific items of expenditure, the balance will be available to support the pressures in the high Needs budget in 2018/19.

Table 10 Analysis of reserves 2018/19	Reserves £
Reserve as at 31st March 2018	928,657
Schools Block	
Growth Fund	(77,000)
Primary Targeted	(60,000)
De-delegation	(160,378)
Early Years	(462,675)
Available Reserve	164,604

7.3 High Needs Block (HNB)

7.3.1 On 23 July 2018 a report was taken to Executive following consultation with schools which identified a number of measures to help balance the high needs budget in 2018/19. Since 2015/16 the high needs budget has been overspent by £1.827m despite various attempts that have been made to control expenditure. Whilst the Department for Education has protected funding in this area in cash terms, the budget has not been adjusted to reflect:-

- **The rising number of children and young people requiring additional support.** Government figures show there were over 30,000 more children in 2017 with statements or Education, Health and Care (EHC) plans than in the previous year.
- **Greater local authority responsibilities to support young people with SEND,** aged between 16 and 25, following the SEND reforms introduced through the Children and Families Act 2014. There have been significant increases in the number of 16-25 year olds with a statement of SEN or an EHC plan since 2014.
- **A trend towards many more children being placed in special schools.** The number of children in special schools rose by 12.5% between 2014 and 2017.

7.3.2 In Trafford this has seen an increasing cost of special school places and top-ups, which increased 6% in 2017/18 and the rising number of children with Education, Health and Care Plans (EHCP's), which lead to additional payments from the high needs budgets to the schools those children attend. The average cost of EHCP's went up by 10% in 2017/18 which has caused the special education needs budget to overspend by £574k and this trend is continuing in the current year.

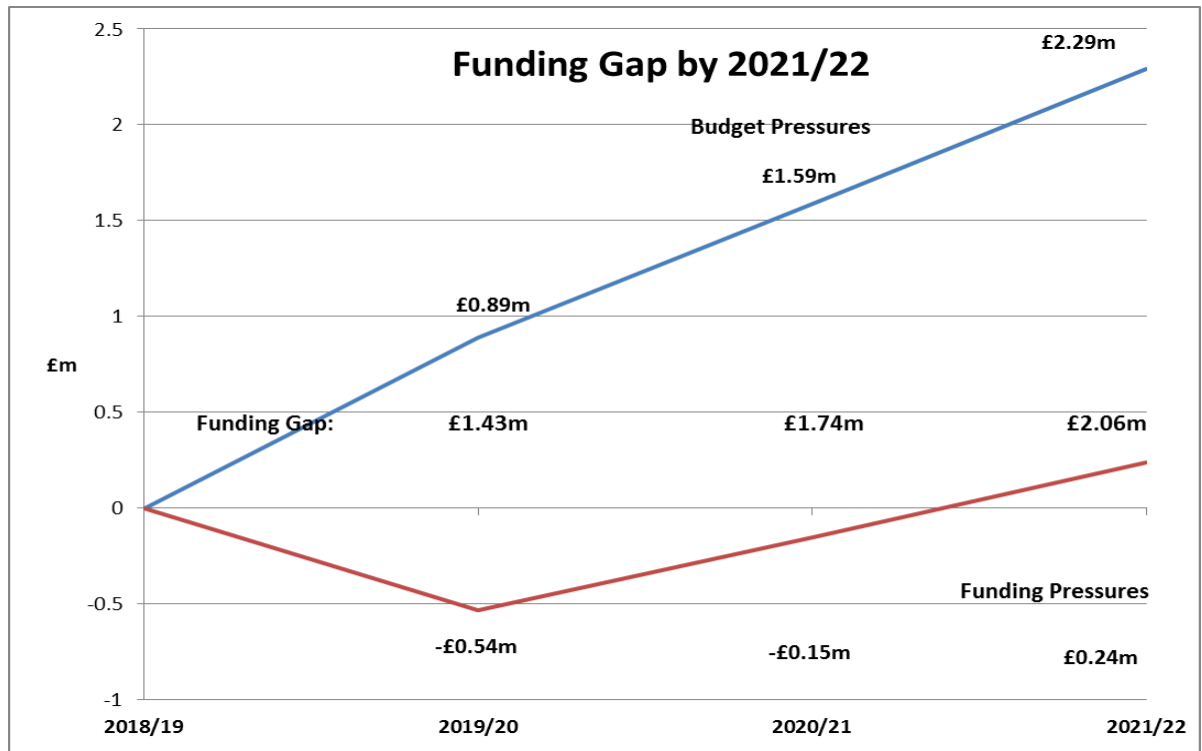
7.3.3 The number of referrals for new Education, Health and Care needs assessments is rising at an unprecedented rate. Between January and May 2017 the number of new referrals was 80; for the same period this year 177 requests have been received, an increase of 121%. This demand for assessment places additional pressure on schools, education, health and social care to undertake substantially more statutory assessments.

7.3.4 The funding gap in 2018/19 was £1.241m and has been addressed by a combination of :

- 0.5% top-slice of the schools block (£778k) as agreed by the Education and Skills Funding Agency (ESFA) equivalent to £21.62 per pupil;
- additional savings proposals totalling £248k; and
- application of reserves £215k.

7.3.5 The use of reserves and the 0.5% top-slice from the schools block are not permanent measures to address the shortfall in 2018/19 and therefore the requirement to make recurrent savings to bridge the gap are carried forward to later years.

7.3.6 A full review of assumptions has been undertaken to identify the funding gap over the period 2019/20 to 2021/22. This has identified a gap of £2.1m by 2021/22, comprising additional expenditure pressures of £2.3m offset by net funding increases over the period of £0.2m



7.3.7 The main budget assumptions and their financial impact over the period include:-

- An uplift in complexity of need leading to a rise in special school top-ups (No assumption has been made for any further growth in place numbers (£0.6m)
- Continued increase in the level of SEN delegation payments to schools (1.0m)
- Increased costs of home tuition for those pupils unable to attend school (£0.3m)
- Inflationary cost increases on out of borough placements, pay, running costs of the additional small specialist class and other small adjustments (£0.4m)
- Additional DSG grant of £1.2m, representing a confirmed increase of 2% in 2019/20 and estimated increases of 1.5% in 2020/21 and 2021/22, offset by the reversal of reserves and one-off funds required to support the budget gap in 2018/19 (£1.0m).

7.3.8 Detailed consideration has been given on how to bridge the budget gap, including:-

- A further request to top-slice the Schools Block
- Review of staff costs charged to HN Budgets
- Expansion of the small specialist class provision
- Review of SEN Protection Pot
- Access and Inclusion
- Review of Top-Ups

7.3.9 The measures necessary to reduce expenditure any further are likely to need substantial modelling and consultation with service users and schools and are therefore highly unlikely to be ready for implementation during 2019/20. Following a consultation exercise with schools over the summer few proposals were received on how to bridge the gap in 2019/20. It is therefore recommended to follow the approach taken in 2018/19 and request a further top-slice of 0.5% from the schools block for 2019/20. This will be considered by the funding forum on 16 October 2018. This is possibly going to be the final year this can be requested and will afford time to plan any measures effectively to understand the implications on individual schools and service users and other aspects of the council's budget. The top-slice alone is not sufficient to meet the budget gap in 2019/20 and therefore the council will look to meet the remaining shortfall through a review of contingency budgets, rather than have to look to impact on services to vulnerable groups and school budgets further.

Table 11 Proposal for meeting the budget gap in 2019/20	(£m)
Budget Gap	1.426
Proposed 0.5% Schools Block top-slice	(0.796)
Continuing Savings Programmes from 2018/19	(0.058)
Council Funding	(0.572)
Remaining Gap	Nil

7.3.10 In the event the 0.5% top-slice is not approved by funding forum it is possible to approach the Education, Skills and Funding Agency for final endorsement of the approach and this would be done in November.

8. CAPITAL STRATEGY AND PROGRAMME

INVESTMENT STRATEGY

8.1 Background

- 8.1.1 Over the last twelve months significant emphasis has been placed on developing a Strategy which will support the Council's financial resilience over the next few years and offer an alternative solution that can be used to address future budget gaps. The Investment Strategy is only one element of the Council's budget strategy and service savings and efficiencies will continue to be sought in future years but it is expected that generating sustainable, low risk revenue streams will play an increasing role given the extent of savings already delivered since 2010/11.
- 8.1.2 The Council's Strategy was approved by Executive and Council in July 2017 when approval was given to increase the capital programme by £300m, supported by prudential borrowing, to support the approach.
- 8.1.3 It is crucial that in developing an investment strategy appropriate guidance is followed and in February 2018 MHCLG Guidance on Local Government Investments was issued including that the Strategy:-
- set out the authority's policies for prudent management of its investments and for giving priority firstly to security of investments and secondly liquidity followed by yield.
 - identify the procedures for monitoring, assessing and mitigating risk of loss of the invested sums
 - be approved by full Council.
- 8.1.4 In December 2017 CIPFA issued an update to the Prudential Code which included a requirement that local authorities should have a Capital Strategy with the purpose of establishing a long term direction for the management and use of capital resources for the organisation. It also states that the strategy should form part of the authority's integrated revenue, capital and balance sheet planning.
- 8.1.5 The requirement for a Capital Strategy is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability.
- 8.1.6 The capital strategy should be tailored to the authority's individual circumstances, but should include capital expenditure, investments and liabilities and treasury management. It should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

8.1.7 The code requires that in compiling the capital strategy an authority should have regard to the following key areas :-

- Capital expenditure
- Debt and borrowing and treasury management
- Commercial activity
- Other long-term liabilities
- Knowledge and skills.

8.2 Coverage

8.2.1 The Council's overall approach to investments is included in the Treasury Management Strategy and Capital Strategy Reports.

- **Financial assets - (Included in future Treasury Management Reports)**
 - Specified Investments
 - Loans
 - Non specified Investments (ie MAG shares)
- **Non-financial investments (See Capital Strategy and Programme below)**
 - Property, plant and equipment
 - Infrastructure
 - Surplus Property
 - Capital Investment Fund (Commercial Investments)

CAPITAL STRATEGY AND PROGRAMME

8.3 Background

8.3.1 The Capital Strategy and Programme aims to provide a long term vision of the Council's planned capital expenditure, capital financing and treasury management activity and how these can contribute to the provision of services through the Capital Programme and the Capital Investment Fund (Commercial Properties). The main objectives are:-

- To maintain and improve key assets used in service delivery, including creation of new assets to allow services to be provided in borough where appropriate
- To invest in new technology to improve efficiencies and support alternative ways of providing services, including assisting people to remain in their own homes
- To invest in local regeneration schemes that promote economic benefit and additional housing, including specific priority to regeneration in Sale and Stretford town centres.

- To support new infrastructure investment leading to the delivery of both economic and housing growth
- To make strategic investments which will generate net revenue streams to support the revenue budget and protect service delivery
- To undertake direct delivery where this is possible to maximise returns, both revenue and capital, to the council

8.4 Capital Programme 2018-21

8.4.1. The Capital Programme is reviewed on a bi-monthly basis and is reported in the Budget Monitoring reports to the Executive. The current programme has been updated and re-profiled for amounts brought forward from 2017-18, the re-phasing of the original 2018-19 programme to later years and new programmes and external contributions. As a result of these changes the current programme is:

Table 12: Capital Programme 2018-21	2018/19 £'000	2019/20 £'000	2020/21 £'000	TOTAL £'000
Service Analysis :				
Children's Services	13,369	20,821	2,719	36,909
Adult Social Care	2,343	2,187	2,187	6,717
Place	62,958	38,430	24,171	125,559
Governance & Community Strategy	1,976	50	0	2,026
Finance & Systems	1,926	2,150	0	4,076
Total Service Programme	82,572	63,638	29,077	175,287
Capital Investment Fund	255,224	0	0	255,224
TOTAL PROGRAMME	337,796	63,638	29,077	430,511
Resource Analysis :				
Capital Grants	16,967	25,101	6,999	49,067
External contributions	9,929	14,165	500	24,594
Borrowing	281,828	20,134	15,283	317,245
Reserves & revenue	11,580	593	0	12,173
Capital receipts	11,835	4,540	9,036	25,411
TOTAL RESOURCES	332,139	64,533	31,818	428,490

The level of over-programming at £2.02m is as agreed in setting the programme in February 2018.

8.4.2. The key priorities in 2018/19 programme are :

- Investment in schools totalling £12.93m including £7.84m on additional school places, £4.41m on maintenance works and £0.68m on Special Educational Needs and Healthy Pupil initiatives.
- £2.78m investment on social care including £2.10m on disabled facilities grants aimed at allowing people to remain in their own homes for longer.

- Investment in leisure facilities with the redevelopment of Urmston Leisure Centre to commence later in the financial year. This is the first phase of a series of planned investments in support of the Council's Leisure Strategy.
- Highways and transport investment of £21.67m. This includes £12.84m for structural works on highways, lighting and bridges, £3.83m investment on a range of integrated transport initiatives and £5.00m contribution to the Metrolink extension.
- Investment in commercial activity of £266.50m with £255.22m being invested through the Capital Investment Fund and £11.28m with the Manchester Airport Group.
- A range of town centre public realm and regeneration schemes totalling £4.63m along with public building repairs programmes of £3.83m and parks and greenspace investment of £1.52m.
- Information communications technology investment of £1.93m.

8.4.3. In March 2018 the Executive gave approval for an additional £17.0m of investment in highways structural maintenance works over the next three years. This includes £5.90m in 2018/19 with further investment of £5.50m and £5.60m in 2019/20 and 2020/21 respectively, subject to resource availability to be assessed as part of the budget setting process for 2019/20 and included in the final budget report in February 2019.

8.4.4. On 30 October 2017 the Executive approved a further strategic investment in Manchester Airport Group. The Council's investment is £11.28m and will be fully required in 2018/19; the majority of which will be financed from the Investment Fund Reserve of £9.92m, with the balance of £1.36m financed from borrowing. This borrowing requirement will be included in the budget reports in February 2019.

8.4.5. When the 2018/21 budget was approved in February 2018 borrowing to support leisure centre developments was set at £29.35m (excluding Urmston Leisure Centre). The latest estimated costs are currently under review for the next phase of the programme, for the replacement of Altrincham and Stretford. Business cases for each centre will include proposals for how the cost of borrowing will be financed and will be subject of a report to Executive in October 2018. Any additional borrowing requirement above that previously approved will be referred to in the main budget report in February 2019. The future developments of Sale Leisure Centre will be addressed at a later date, however it should be highlighted that during the interim period there is potential that maintenance works will be required. These works will need to be funded from future public building repair budgets.

8.4.6. The capital programme utilises all known available capital funding sources over this period to include prudential borrowing, capital grants and contributions and capital receipts.

8.4.7. The current programme relies on significant levels of land sales receipts for its financing. The latest resource estimates, which include a mixture of sales

receipts and direct development returns, indicate that across the three year period there are sufficient to support the current value of the programme.

8.5 General Capital Programme 2019-22

8.5.1. Capital Bidding Round

All service areas have been requested to submit new capital bids for the three years from 2019/22. This has included re-bidding for schemes in the current 2019/21 programme where those schemes are uncommitted along with new priorities across 2019/22. A full review of all bids will be undertaken by the Corporate Leadership Team and reported to a future Executive.

8.5.2. Capital Resources Update 2019-22

A large proportion of the general capital programme is reliant on grants and contributions, eg investment in schools and highways and assumptions on grant levels have been made for 2021/22.

As reported in paragraph 8.4.7 there is a heavy reliance on land sales receipts and development returns in setting the capital programme. Current levels are estimated to be £25.41m which along with approved borrowing of £9.00m in support of the general programme gives discretionary internally generated resources of £34.41m. The current level of internal funding required to support the programme is £36.43m - table 2 provides a summary of the schemes currently financed by these resources. (See ref to agreed overprogramming in Para 8.4.1)

Table 13:	2018/19	2019/20	2020/21	TOTAL
<i>Internally funded investment 2018-21</i>	£'000	£'000	£'000	£'000
Schools	2,451	0	0	2,451
Social Care	682	345	345	1,372
Public Building programmes	3,049	960	960	4,969
Regeneration & Town Centres	3,253	0	0	3,253
Leisure Strategy	6,776	3,300	3,300	13,376
Highways & Transport (Note)	3,843	1,550	1,450	6,843
ICT Schemes	1,735	250	0	1,985
Other	1,703	240	240	2,183
Total Investment	23,492	6,645	6,295	36,432

Note: Figures exclude the highways investment shown in paragraph 8.4.3.

In order to update the programme for any new priorities that come forward as part of the bidding round a review of all un-committed schemes will have to be undertaken to confirm continued inclusion or replacement with new priorities.

8.5.3. A review of the future year's programme will be undertaken and reported back to Executive in February 2019. This will involve a review of existing planned

programmes against new emerging priorities including any invest to save measures required to support future revenue savings.

8.6 Capital Investment Fund

8.6.1. At Council on 22nd February 2017 an investment fund of £20m was established to support the acquisition of assets that will support local regeneration/economic development and/or yield future sustainable revenue streams for the Council and also cover borrowing costs.

8.6.2. In July 2017 the Council agreed an Asset Investment Strategy and an Investment Fund of £300m, to fund projects which will deliver significant economic development and regeneration benefits for the area and/or increase the Council's income generating capacity to move the Council into a more sustainable budget position. All investments would be in low risk assets and be capable of providing a revenue stream to support the budget, after all related debt and management costs and risk reserve had been taken into account.

8.6.3. To date seven transactions have been agreed by the Investment Management Board at a total capital cost of £136.77m (see Table 4). This investment will provide a net benefit to support the revenue budget in 2018/19 and later years.

Table 14 : Capital Investment Fund	2017/18	2018/19	Total
	£'000	£'000	£'000
Total Investment Fund			300,000
Activity to date :			
Projected Cost			
K Site, Talbot Rd, Stretford	1,240	23,810	25,050
Sonova House, Warrington	12,170		12,170
DSG, Preston	17,390		17,390
Grafton Centre incl. Travelodge Hotel, Altrincham	10,840		10,840
Brown Street, Hale		6,210	6,210
Trafford Magistrates Court, Sale		4,300	4,300
The Crescent, Salford : Debt financing for residential development		60,800	60,800
Total investments	41,640	95,120	136,760
Balance available			163,240

8.6.4. The Asset Investment Strategy is already providing important revenue streams to support the revenue budget. It is recommended that the existing level of the Fund be increased from £300m to £400m to increase the existing capacity to gain future benefits. The increase will be funded from borrowing with approval being sought in February 2019 when setting the budget.

8.6.5. The Strategy has recently been updated to ensure the most appropriate approach is taken going forward (See Annex F). Focus will still be on achieving balanced risk, secure and sustainable income streams into the medium to long term, with particular emphasis placed on either development or investment debt across a wider geographical area.

Base Budget Assumptions

Base Budget Assumptions	2019/20 £m	2020/21 £m	2021/22 £m
Service Expenditure			
Pay: Inflation	2.0% to 7.3%	2.0%	2.0%
	£1.73	£1.32	£1.33
Pay: Pension Inflation	0.0%	0.5%	0.5%
	£0.00	£0.26	£0.26
Pay: Increments & Pension Auto-Enrolment	£0.06	£0.05	£0.05
Pay: Living Wage	£1.93	£1.57	£1.57
General Inflation: Prices(*)	0.0%	2.0%	2.0%
	£0.00	£0.28	£0.29
Contractual Obligations: Inflation Specific e.g. energy	£2.03	£1.91	£1.94
Levies: Waste (GMWDA) Levy Increase	£1.19	(£0.64)	(£0.50)
Demographics:	Children	£1.00	£1.00
	Adults	£1.50	£1.50
Treasury Management			
Investment Rates	0.70%	0.99%	1.20%
Debt Rates	2.50%	2.50%	2.50%
Funding			
Council Tax rate increase (Adult Social Care)	1.00%	0.00%	0.00%
Council Tax rate increase (Relevant Basic Amount)	2.99%	2.99%	2.99%
Council Tax base increase	1.00%	1.00%	1.00%
Change in Baseline Funding Level	(8.02)%	1.34%	1.35%
	£(4.62)	£0.71	£0.73

* - General Inflation was assumed at 2%, however will be absorbed as part of proposed budget saving.

Subjective breakdown of Gross Budget Gap : 2019 to 2022

<i>The 2019-22 Revised Budget Gap</i>	October 2018			
Budget Forecasts	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	Impact over 3 Years (£'000)
Net Budget b/fwd	164,245	172,958	184,998	
<u>Budget Assumptions:</u>				
Pay	1,839	1,670	1,721	5,230
Living Wage	1,929	1,572	1,572	5,073
Inflationary	218	282	287	787
Contractual Obligations	2,117	1,930	1,960	6,007
Levies	1,188	639	507	2,334
Demographic	2,500	2,500	2,500	7,500
Grants, Legislative & Service Transfers *	(2,198)	0	0	(2,198)
Loss of Income	(45)	(250)	0	(295)
Treasury Management	(420)	(698)	0	(1,118)
Other	1,585	4,395	0	5,980
Total Budget Assumptions	8,713	12,040	8,547	29,300
Net Budget	172,958	184,998	193,545	
<u>Funding:</u>				
Council Tax	(95,460)	(96,476)	(97,548)	
Council Tax Release of Prior Year Surplus	(900)			
Business Rates	(65,103)	(53,894)	(54,625)	
Contribution to Budget Support Reserve	600			
Available Funding	(160,863)	(150,370)	(152,173)	
Cumulative Gross Revised Budget Gap	12,095	34,628	41,372	
Annual Revised Gross Budget Gap	12,095	22,533	6,744	

100% Business Rates Retention GM Pilot

Annex C

Business Rates Benefit Calculation 2018/2019 to 2021/2022

	2018/19 100% PILOT £	2019/20 100% PILOT £	2020/21 100% PILOT £	2021/22 100% PILOT £
Gross Rates Payable	182,565,243	186,368,685	190,172,128	193,975,571
Transitional Adjustments and Mandatory & Discretionary Reliefs	(15,865,758)	(16,183,073)	(16,506,735)	(16,836,869)
NET RATES PAYABLE	166,699,485	170,185,612	173,665,393	177,138,701
Accounting Adjustments (Appeals & BDP) & Cost of Collection	(12,636,373)	(12,897,444)	(13,159,564)	(13,422,755)
NNDR Income	154,063,112	157,288,169	160,505,829	163,715,946
Local Share	152,522,481	155,715,287	158,900,771	162,078,786
Tariff	(87,609,184)	(94,269,775)	(96,502,443)	(98,779,764)
Retained Business Rates	64,913,297	61,445,512	62,398,328	63,299,023
Baseline Funding Level (BFL)	57,725,323	53,095,701	53,810,343	54,539,278
Growth	7,187,974	8,349,811	8,587,985	8,759,745
SAICA Renewable Energy	80,952	82,571	84,222	85,907
Section 31 Compensation Grants	7,299,896	7,455,608	7,567,748	7,681,454
Growth/(Decline) to Baseline	14,568,822	15,887,990	16,239,956	16,527,106
GM Pilot 'No Detriment' Over Payment	(9,348,524)	(10,127,144)	(10,359,273)	(10,548,073)
GM Pilot 'No Detriment' Over Payment Rebate	4,674,262	5,063,572	5,179,636	5,274,036
Business Rates Benefit over BFL	9,894,560	10,824,418	11,060,319	11,253,070
Release of Prior Year Surplus		1,181,000		
Business Rates Growth Reset		0	(10,976,097)	(11,167,163)
Business Rates Benefit of 100% Pilot	9,894,560	12,005,418	84,222	85,907

Total Benefit from Business Rates

	2018/19 100% PILOT £000	2019/20 100% PILOT £	2020/21 100% PILOT £	2021/22 100% PILOT £
Core Baseline Funding	35,031,470	35,732,100	36,446,741	37,175,677
Revenue Support Grant	10,302,853	5,298,601	5,298,601	5,298,601
Public Health Grant	12,391,000	12,065,000	12,065,000	12,065,000
Total Baseline Funding Level	57,725,323	53,095,701	53,810,343	54,539,278
Business Rates Benefit of 100% Pilot	9,894,560	12,005,418	84,222	85,907
Total Benefit from Business Rates	67,619,883	65,101,119	53,894,565	54,625,184
Yearly Change				
Change in BFL		(4,629,622)	714,642	728,935
Change in Business Rates Benefit		2,110,857	(11,921,195)	1,684
Yearly Change		(2,518,765)	(11,206,553)	730,619

Total reduction in Business Rates -£2.52m-£11.21m+£0.73m = -£13.0m

Income Proposals

Annex D

Report	Service Area	Description of Saving	2019/20 £000's	2020/21 £000's	2021/22 £000's
Feb-18	PLACE	Additional income Green Waste Charges	(395)		
Feb-18	CENTRL	CCTV New Trading Model	(15)		
Feb-18	CW	Strategic Investment Income	(214)		
Feb-18	PLACE	Net Income from Invest Props	871	(150)	
Existing Income Proposals			247	(150)	
Oct-18	PLACE	Net Income from Invest Props (identified)	(1,500)	(400)	1,900
Oct-18	CW	Increase in Strategic Investment Income	(1,500)	(500)	
Oct-18	PLACE	Review of Car Parking charges	(84)	(73)	
Oct-18	PLACE	Environmental Health - Increase Fee Income (various)	(27)	(5)	(5)
Oct-18	PLACE	Licensing - knowledge test charge	(20)		
Total New Income Proposals Oct 2018			(3,131)	(978)	1,895
Total Existing and New Income Proposals			(2,884)	(1,128)	1,895

Savings Proposals

Report	Service Area	Description of Saving	2019/20 £000's	2020/21 £000's	2021/22 £000's
Feb-18	PLACE	Mandatory Recycling	(161)		
Feb-18	CENTRL	Early Repayment of Suppliers Discount	(50)	(100)	
Total Existing Saving Proposals (updated Oct 18)			(211)	(100)	0
Oct-18	CW	Reduction in Insurance costs	(50)		
Oct-18	Children	Reduction in External Children's Home Use (4 children from OOB to in-house provision)	(371)		
Oct-18	Children	Creation of New Post 16 Accommodation (increasing internal provision)	(202)		
Oct-18	ADULTS	Let's Talk	(160)		
Oct-18	ADULTS	Right Care For You	(200)		
Oct-18	ADULTS	Adults Re-assessments	(200)		
Oct-18	PLACE	Development Management (Planning Performance Agreements - cost recovery)	(35)		
Oct-18	PLACE	Strategic Planning - Remove Greenspace funding contingency budget	(40)		
Oct-18	PLACE	Allotment Services - removal of subsidy	(20)		
Oct-18	PLACE	Environmental Health - Reduce budget of dog warden service	(5)		
Oct-18	CENTRL	Customer Services - reduce contact centre opening hours	(21)		

Oct-18	CENTRL	Legal - CCG legal costs	(10)		
Oct-18	CENTRL	Legal - appoint litigation solicitor/reduce external costs	(20)		
Oct-18	PLACE	Housing Strategy - reduce running costs	(10)		
Oct-18	CENTRL	Partnerships - use of smoothing reserve - one off	(100)	100	
Oct-18	CW	New Strategic Investment			(250)
Oct-18	CENTRL	STAR contribution	(36)		
Oct-18	CW	Reinstate saving GMPF Reduced Allowance for Early Retirements	(350)		
Oct-18	CW	Advance Pension Payment		(757)	
Oct-18	ALL	Remove General Inflation provision	(218)		
Oct-18	CW	Reduce General Contingency	(600)		
Oct-18	CW	Debt Restructure savings	(200)		
Total New Savings Proposals 2018			(2,848)	(657)	(250)
Total existing and new Savings Proposals			(3,059)	(757)	(250)

Total existing and new Income Proposals	(2,884)	(1,128)	1,895
Total existing and new Savings Proposals	(3,059)	(757)	(250)
Total Savings and Income Proposals (Oct 18)	(5,943)	(1,885)	1,645

2019/20 Subjective (Spend) Budget Analysis

2019/2020 SUBJECTIVE ANALYSIS						
	CFW (£000's)	PLACE (£000's)	CENTRAL (£000's)	Council- wide (£000's)	Funding & Reserves (£000's)	Total (£000's)
NET BUDGET Brought Forward	92,195	23,811	16,816	31,423		164,245
<u>Budget Pressures :</u>						
Pay	622	119	554	544		1,839
Living Wage	1,605	50	274	0		1,929
General Inflation	31	68	117	2		218
Contractual Inflation & Obligations	1,165	807	145	0		2,117
Levies	0	8,632	0	(7,444)		1,188
Social Care Demographic	2,500	0	0	0		2,500
Grants, Legislative & Service Transfers	(2,464)	0	0	266		(2,198)
Loss of Income	0	(45)	0	0		(45)
Treasury Management	0	0	0	(420)		(420)
Policy Choice Investment	0	0	0	0		0
Other	0	283	154	1,148		1,585
Total Budget Pressures	3,459	9,914	1,244	(5,904)		8,713
<u>Budget Savings</u>						
Income Generation	0	(526)	(15)	(2,343)		(2,884)
Savings Proposals Efficiencies & Policy Choice	(1,164)	(339)	(354)	(1,202)		(3,059)
Total Approved Budget Proposals	(1,164)	(865)	(369)	(3,545)		(5,943)
PROPOSED NET BUDGET	94,490	32,860	17,691	21,974	0	167,015
<u>Funding:</u>						
Council Tax					(95,441)	(95,441)
Council Tax - 2.99% General Increase					(2,853)	(2,853)
Council Tax - 2% Adult Social Care Increase					(955)	(955)
C Tax Prior Year Collection Fund (Surplus)/Deficit					(900)	(900)
Business Rates: Local Share					(147,366)	(147,366)
Business Rates: Tariff Payment					94,270	94,270
Business Rates: Growth Assumptions, S31 Grants, GM Pilot					(12,007)	(12,007)
Funding Total					(165,252)	(165,252)
PROPOSED FUNDING					(165,252)	(165,252)
<u>Additional Use of Reserves:</u>						
Budget Support Reserve					600	600
Movement in Reserves Total					600	600
FUNDING FROM RESERVES					600	600
BUDGET GAP						2,363