Bath & North East Somerset Council		
MEETING:	**Council**	
MEETING DATE:	**13th February 2018**	EXECUTIVE FORWARD PLAN REFERENCE: E3004
TITLE:	**Budget and Council Tax 2018/19 and Financial Outlook**	
WARD:	All	
AN OPEN PUBLIC ITEM		

List of attachments to this report

Annex 1: Revenue Budget 2018/19 – individual service cash limits
Annex 2: 2018/19 to 2019/20 Budget Savings & Income Generation Proposals
Annex 3: Equalities Impact Assessment of 2018/19 to 2019/20 Savings Proposals
Annex 4: Efficiency Strategy
Annex 5: Draft Capital Programme 2018/19 to 2022/23
Annex 5 (i) New and Emerging Capital Schemes
Annex 5 (ii): Highways Maintenance Programme
Annex 5 (iii): Transport Improvement Programme
Annex 5 (iv): Corporate Estate Planned Maintenance Programme
Annex 5 (v): Community Infrastructure Levy (CIL) Allocations
Annex 6: MRP Policy
Annex 7: Advice of Monitoring Officer on the Budget Setting Process
Annex 8: Annual Pay Policy Statement
Annex 9: Budget Aims and Ambitions
Annex 10: Formal Council Tax Setting Resolutions (incorporating precepts from Parishes, Fire, and Police) – TO FOLLOW

1. THE ISSUE

This report presents the revenue and capital budgets for 2018/19 together with proposals for Council Tax and Adult Social Care Precept for 2018/19.

2. RECOMMENDATIONS

2.1 That the Council approves:-

a) The General Fund net revenue budget for 2018/19 of **£113.271m** and the individual service cash limits for 2018/19 as outlined in Annex 1.

b) The savings and income generation plans outlined in Annex 2 in conjunction with the Equalities Impact Assessment Report in Annex 3 and thereby agrees to implement the Council's draft Operational Plan which has been presented to each of the relevant PDS Panels.

c) That the TDC (Thermae Spa) Profit Share arrangement and possible lease extension is renegotiated, subject to appropriate consents and the final decision delegated to the Chief Executive in consultation with the S151 Officer and Leader of the Council.

d) To help protect front line services and meet additional pressures in Children's Services the budget includes a recommendation that Council Tax is increased by 1.95% in 2018/19 (an increase of £25.04 per Band D).

e) An increase of 3% to Council Tax for the Adult Social Care Precept is approved in recognition of the current demands and financial pressures on this service. This is equivalent to an increase of £38.52 on a Band D property.

f) That the release of reserves, including the Invest to Save Reserve is delegated to the Council's S151 Officer in consultation with the Portfolio Holder for Finance and Efficiency and the Chief Executive.

g) The transfers between reserves outlined in 5.5.1 and the adequacy of Un-earmarked Reserves at £12.2m within a risk assessed range requirement of £11.9m-£13.1m.

h) The Efficiency Strategy attached at Annex 4 and delegation of the Leading Together Change Programme funding of £2.0m to the Chief Executive in consultation with the Leader of the Council.

i) The Capital Programme for 2018/19 of £83.111m including the capital review outlined in 5.7.2, new and emerging capital bids outlined in Annex 5, planned sources of funding in 5.7.3, and notes the programme for 2019/20 to 2022/23 and that any wholly funded projects coming forward during the year will be added to the Capital Programme in line with the Budget Management Scheme.

j) The delegation of implementation, subject to consultation where appropriate, of the capital programmes set out in Annex 5(ii) to Annex 5(iv) to the relevant Strategic Director or Divisional Director in Consultation with the appropriate Portfolio Holder.

k) Approve the amended process for Provisional Capital Schemes to become Fully Approved Schemes as outlined in 5.7.3 and all other delegations as set out in the report.

l) The Community Infrastructure Levy (CIL) allocations outlined in Annex 5(v).

m) The MRP Policy attached at Annex 6.

n) The Capital Prudential Indicators outlined in 5.7.5

o) The Annual Pay Policy Statement at Annex 8.

p) The Council Tax Support Scheme for 2018/19 shown in the following link http://www.bathnes.gov.uk/CouncilTaxSupportScheme2017-18 and referred to in 5.3.4.

2.3 That the Council notes the S151 Officer's report on the robustness of the proposed budget and the adequacy of the Council's reserves outlined in 5.6.

2.4 That the Council approves the technical resolutions that are derived from the budget report, and all the figures in that report, including the precepts for towns, parishes and other precepting bodies as set out in Annex 10.

3. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

The resource implications are contained within the body of the report

4. STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSALS

A local authority has a statutory duty to set an annual budget and Council Tax. The advice of the Council's Monitoring Officer regarding the budget setting process is attached at Annex 7.

Members must have regard to the impact on specific groups in their decision making. The Equalities Team has reviewed savings plans to ensure that any impact the saving will have on diversity and equality has been assessed and to ensure that any issues are highlighted to members before a decision is made. The analysis is attached at Annex 3.

5. THE REPORT

5.1 The 2018/19 Budget Summary

The Medium Term Financial Strategy (MTFS) was approved in October 2017 and outlined how the budget would be delivered over the medium to long-term. The MTFS for B&NES spans two years with a further three added to show the likely longer-term picture.

The Council needs to deliver a balanced budget over the term of the plan. A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. The MTFS shows a projected budget gap for 2019/20 and beyond. The figures include all estimates for pay awards, pension costs, Council Tax, business rates, Government grant, and inflation.

The budget focusses on protecting frontline services at a time when the authority is facing cuts in funding whilst facing unprecedented increases in demand in Adults and Children's Services. An increase of 3% in the Adult Social Care Precept has been included in this budget to help meet the pressures in Adult Social Care.

Significant savings and income generation plans totalling £26.83m are included within budget proposals. Of these savings 61% are considered high risk and reflects the same position as many local authorities in that savings plans are becoming more complex and difficult to deliver. The plans include a reduction of approximately 15% in staffing over the next two years that will need to be delivered while protecting front line services to our residents and businesses together with other business critical activities.

To help protect front line services and meet additional pressures in Children's Services the budget includes a recommendation that Council Tax is increased by 1.95% in 2018/19 (an increase of £25.04 per Band D). The proposed Band D Council Tax for Bath and North East Somerset Council next year including the Adult Social Care Precept is £1,347.89 (£1,284.33 in 2017/18) an increase of £63.56 per Band D (£5.30 per month).

There are a number of issues that are specifically impacting on B&NES that the Council is directly or through the LGA looking to central Government to recognise and to agree solutions such as the financial impact of the level of student accommodation, as students do not pay Council Tax nor do the local universities pay business rates on that accommodation which means that there is no contribution from this to the running of Council services. The lost income from Council Tax is estimated at £4.9m per annum.

The proposed net revenue budget for Bath and North East Somerset for 2018/19 is £113.27m.

5.1.1 Council Priorities

The Council's Corporate Strategy was adopted by Council at their meeting on 16th February 2016. It set out the 2020 Vision and the Council's direction of travel. The Corporate Strategy has been shaped by and will deliver the 'Putting Residents First' manifesto, which contains three core aims and six key priorities for the Council to focus on:

Core Aims

- Efficient and well run;
- Invests in the future of the area; and
- Puts the interests of residents first

Key Priorities

- Tackling waste and increasing efficiency
- Improving transport
- Delivering new homes and jobs
- Investing in young people
- Supporting cleaner, greener and healthier communities
- Promoting choice and independence for older people

The Operational Plan proposed by Cabinet translates the Council's overarching Corporate Strategy and vision for the future, setting out the key activities and projects that the Council plans to deliver to achieve this in 2018/19. The Operational Plan was considered by the Policy and Scrutiny Panels in January 2018 to inform the budget process. Annex 9 outlines some examples of how the budget will continue to deliver the Cabinet's commitments, including a selection of projects and schemes from the capital investment programme.

5.2 The Revenue Budget 2018/19

5.2.1 Current Position

At the end of 2016/17 the Council reported a £2m over budget position – this occurred too late in the financial year to rebase within the 2017/18 budget process. The expected 2017/18 year end position at the end of December 2017 is an over budget position of £3.4m mainly due to additional demand in Adult Social Care, Children's Services, and Special Educational Needs and Disability (including the impact of the previous year). The year-end estimate is after the use of £1.3m in Adult Social Care Reserves.

There have been a number of measures put in place to mitigate some of the pressures including:-

- Reviewing all vacancies to hold or remove;
- Introducing a three month turnover saving before a vacancy can be filled;
- Buying leave option for staff;
- Bringing forward planned savings;
- Regular monthly updates to the Transformation Group;
- Reviewing all income streams;
- Reviewing all spend above £10k.

In addition specific measures have been agreed within Adult Social Care:-

- Additional capacity for project management, transformation, and contract management;
- Improvements to the IT system in processing and reporting;
- Approval panels set up for care packages;
- Support planning and brokerage of placements.

These additional measures have reduced the over budget position forecast of £5.1m at the end of August 2017 to £3.4m at the end of December. A thorough review of the budget has been carried out of the deliverability of savings plans, demand and demographic pressures within Adult and Children's Services, as well as inflation and other pressures impacting on the budget. This together with analysis previously reported equates to overall pressure of £12.5m (budget rebasing of £7.8m, plus demographic and contract inflation of £4.7m) to next year's budget. The reduction in Revenue Support Grant and Public Health Grant although planned for has added a further £4.2m pressure next year.

In addition to this a review of the Capital Programme has been completed resulting in a net ongoing revenue saving of £0.125m per annum.

5.2.2 The Budget and Medium Term Financial Outlook

The budget detail and assumptions as well as the future forecast is shown in the table below:-

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Budget Requirement (Previous Year)	**112.89**	**113.27**	**111.86**	**112.10**	**113.63**
Once-Off items from previous year	0.58	-0.15	-	-	-
Pay inflation	1.81	1.39	1.27	1.27	1.27
National living wage impact	0.17	0.18	0.19	0.20	0.21
Pension Contributions	0.60	0.60	0.60	0.60	0.60
Demographic and contract inflation	4.69	4.74	2.99	2.94	2.94
Budget Rebasing Review	7.78	0.30	0.30	0.30	0.30
Provision for amber rates savings in future years	-	0.80	-	-	-
Formalisation of Previous Decisions	0.12	-	-	-	-
Reduction in New Homes Bonus Grant	0.59	0.14	0.59	0.44	-
Reduction in Public Health Grant	0.24	0.22	-	-	-
Capital Financing	2.56	2.11	1.11	1.10	0.50
Increased Business Rates income (incl s31 grants)	-1.92	-	-	-	-
Once-off costs	0.15	-	-	-	-
Draft Budget Before Savings	**130.27**	**123.60**	**118.91**	**118.94**	**119.45**
Proposed and Existing Savings Measures (Annex 2)	17.00	9.83	-	-	-
Estimated Savings Required in Future Years	-	1.91	6.81	5.31	4.29
Budget Requirement	**113.27**	**111.86**	**112.10**	**113.63**	**115.16**

Funding of Budget Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Council Tax 1.95% in 2018/19	81.11	81.92	82.74	83.57	84.40
Adult Social Care Precept 3% in 2018/19 and 1% in 2019/20	5.62	6.55	6.62	6.69	6.75
Collection Fund Deficit (Council Tax)	-0.04	-	-	-	-
Business Rate Retention incl Revenue Support Grant	27.62	24.62	22.74	23.37	24.01
Collection Fund Deficit (NDR)	-1.73		-	-	-
Business Rates Reserve	0.50	-1.23	-	-	-
Use of Financial Planning Reserve for Once-Off Costs	0.19	-	-	-	-
Funding of Budget Requirement	**113.27**	**111.86**	**112.10**	**113.63**	**115.16**

(Note the table outlines an increase in Council Tax in 2018/19 only with Adult Social Care Precept of 3%in 2018/19 and 1% in 2019/20)

The forecast includes the following cost pressures and assumptions:-

Pay – Pay inflation has been allocated in accordance with the national agreement for 2018/19. The Council's Pay Policy Statement is attached at Annex 8;
Pension Costs – Estimated at 1% increase per annum;
Service Demand Pressures – the strategy assumes that demand especially within Adults and Children's Social Care remains in line with estimates as at December 2017.
Interest Rates - Continued very low rates of interest of under 0.5% per annum for treasury management short-term cash investments. The Council will maintain a minimum cash policy;
Inflation – CPI projections for the coming years are expected to be 2.4% in 2018/19, 1.9% in 19/20 and 2.0% thereafter. However it is expected that services will continue to absorb all but a limited amount based on specific service circumstances and contractual commitments;
Capital Spending – an allowance has been made to fund a minimal number of new schemes funded from corporate supported borrowing;
Borrowing – the strategy introduces longer term borrowing costs into the MTFS to free up revenue reserves however the authority will continue to optimise the use of cash balances subject to market conditions and the overriding need to meet cash outflows;
Partnerships - That our working arrangements with WECA and the CCG have a neutral impact on the Council's finances.

Annex 1 shows the Revenue Budget Summary for 2018/19, which totals £113.27m. Once approved by Council, these represent the financial plans that the Cabinet will manage under their delegated authority and monitor in accordance with the Budget Management Scheme.

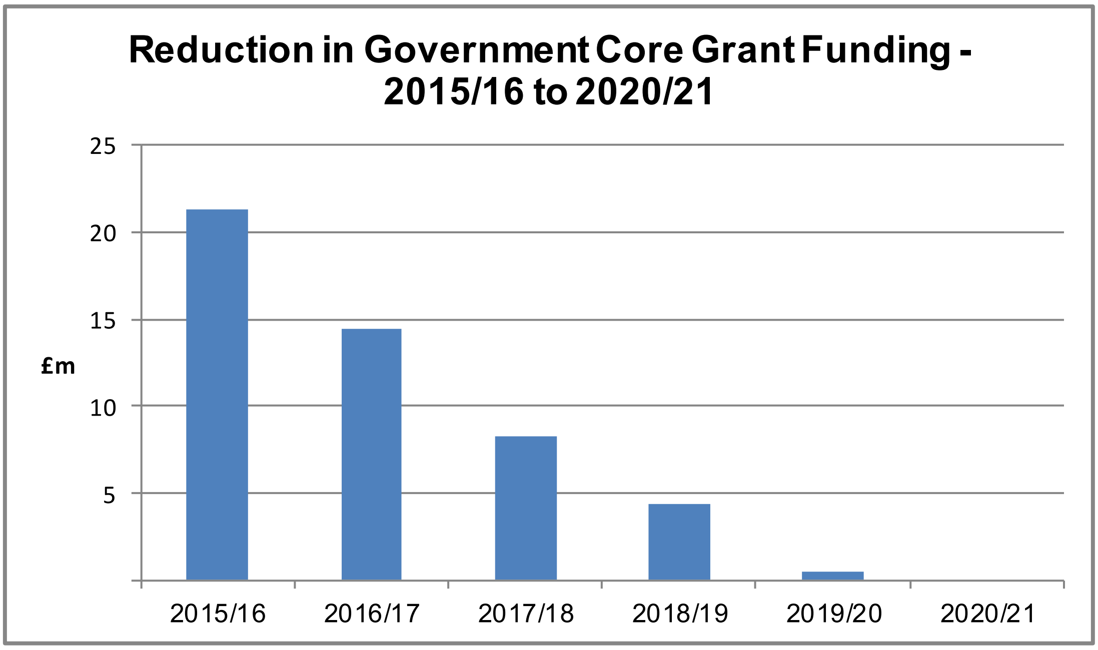
5.2.3 The Government Settlement

B&NES agreed to accept the four-year settlement as did 97% of all local authorities – 2019/20 will be the last year of this agreement.

The Provisional Settlement was received on the 19th December 2017 but has not yet been finalised. MPs will not decide on the final settlement until mid to late February and therefore there is a small chance that the figures for B&NES will change. The figures outlined in this report reflect the provisional figures and four year settlement. The final settlement details will be reflected within the report to Council if they are published before the report deadline.

- **Revenue Support Grant**

  The budget and strategy assumes that the 4-year settlement agreed for 2016/17, will continue to 2019/20 with further reductions of £0.49m in 2020/21 removing any remaining RSG (note the remaining RSG allocated to B&NES has been rolled into the 100% Business Rate Pilot). The reductions are shown in the table below:-



- **New Homes Bonus**

  The 2017/18 Settlement announced changes to the funding arrangement for New Homes Bonus which would reduce the number of years for which payments are made to 4 years in 2018/19. The settlement announced that the national housing growth baseline adjustment would remain at 0.4% for 2018/19. The Government decided not to make any amendments regarding successful planning appeals.

  The amount allocated to B&NES for 2018/19 is £4.79m.

- **Adult Social Care Support Grant**

  The Government distributed £240m of savings from New Homes Bonus nationally to authorities responsible for Adult Social Care. For the Council this resulted in a one-off amount in 2017/2018 of £733k. The settlement is silent on further distribution and therefore no further grant has been factored into the budget.

- **Better Care Fund**

  The Better Care Fund is intended to incentivise the integration of health and social care, requiring Clinical Commissioning Groups (CCG) and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently and achieve better outcomes for people, in particular by reducing avoidable hospital admissions and facilitating early discharge from hospital.

  The Council & B&NES CCG Better Care fund for 2018/19 will be c£61.4m with the Council contribution of £25.8m and CCG contribution of £35.6m. The increase in value of the B&NES Better Care Fund is through the further pooling of funding in 2017/18 for the Joint Community Services contract with Virgin Care and associated sub-contracts.

  In addition extra funding for adult social care was announced in the 2017 budget with local allocations of one-off funding of £2.064m in 2018/19 reducing to £1.028m in 2019/20, this funding is pre-committed through the 2017/18 Better Care Fund plan and is helping to protect current Social Care spending levels and meet the national conditions for the BCF plan including improving delayed transfers of care (DTOC) performance.

  From 2018/19 the government through the improved BCF will make funding available incrementally to Local Authorities, £825m in 2018/19 and £1.5bn in 2019/20. For the Council, indicative allocations of the funding are £1.4m in 2018/19 and up to £3m in 2019/20. This funding has been incorporated into the 2018/19 Better Care fund planning assumptions with the funding allowing the Council to continue in meeting Adult Social Care needs and supporting the local Social Care provider market. B&NES Better Care Fund Plan 2017-19 has been agreed by all parties (including the Council, CCG and Health and Wellbeing Board) and NHS England confirmed on 20 December 2017 B&NES BCF plan has been “Approved” at a national level. As a consequence funding can be released subject to the funding being used in accordance with the final approved plan.

- **Non-Domestic Rates**

  It has been confirmed that the 100% Business Rate Retention Pilot will continue into 2018/19. The estimated benefit of £2.5m per annum for this Council was factored into the Budget in 2017/18.

  The strategy assumes that this benefit will remain in place over the five year period. If the authority returns to a national retention scheme, it is currently estimated that a further £3.9m will be added to the budget gap if this was to occur in 2020/21 once forecast increases have been factored in. The strategy also assumes that a baseline reset will occur in 2020/21.

  As part of the proposed budget, reasonable assumptions have been made for likely levels of future Business Rate income, together with specific provisions for appeals and growth. Any surplus or deficit on the Business Rate Collection Fund and associated income will be transferred to or from the Business Rates Reserve for consideration as part of the Business Rates calculations for future years. This approach will include any changes that arise from the final settlement announcement relating to Business Rates, the announcement was still awaited at the time this report was finalised.

The provisional local government finance settlement included an announcement that the local share in the national Business Rate Retention Scheme (BRRS) is likely to increase from 50% to 75% in 2020/21. The increase in local share of Business Rates will be fiscally neutral and will be matched by transfers of Revenue Support Grant, Public Health Grant and other grants. This will be accompanied by a Business Rate baseline reset and an update in needs based funding allocations based on the outcomes of the Fair Funding Review. The financial planning assumptions will be updated as the outcomes of the various consultations are developed over the period leading up to 2020/21.

- **Schools Funding**

  Schools are funded by the Dedicated Schools Grant (DSG) which is initially allocated to the Council by the Department for Education (DFE). The DSG supports all expenditure in schools (who set their own budgets) and the activities that the Council carries out directly for schools. It does not cover the statutory responsibilities the Council has towards parents. These responsibilities are funded through the Councils main revenue funding and included as part of the proposed Budget.

  As schools convert to academies the DFE take back the element of DSG payable to the local authority in order to make payments direct to the academies. It is estimated that 75% of schools will have converted to academies by September 2018 and that all schools will develop plans to convert in the coming years.

  With the introduction of the National Funding Formula for schools the DSG for schools will be ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG. The pressures currently being observed amount to £2.3 m and this pressure has been incorporated in the demographic pressures in this report. Schools Forum has agreed to support these pressures from the Schools Block for 2018/19. This commitment provides £0.5m of funding to ease the pressures on the Council (the £2.3m takes this into account).

  The final settlement of the DSG for 2018/19 has been provided by the DFE and is in line with the estimates predicted.

5.2.4. Savings and Income Generation

Revised estimates for savings and income generation show that £28.7m will be required over the next two years. This is based on the assumption that the savings already approved and proposed savings of £26.8m can be delivered. This leaves a remaining savings gap of £1.9m in 2019/20 for which savings plans will need to be developed by February 2019.

The proposals for savings and income generation outlined in Annex 2 have been included in the Operational Plan for 2018/19 and will be reviewed by each of the PDS Panels before Council on the 13th February 2018. The Annex has been updated to reflect any amendments to savings plans and income generation.

The MTFS outlined the following savings strategy to be delivered as part of the authority's assessment of its **long term delivery model.** This can be achieved through:-

- **Priority based resourcing** to develop options to reduce spend by:-

- "Do better" – maintaining performance whilst reducing spend;
- "Do differently" – reducing spend through a different delivery model;
- "Do less" – reduce or stop the service.

- **Maximising commercial income;**

  Review all income streams to:-

  - Increase discretionary charges where appropriate;
  - Ensure statutory charges are based on full cost recovery.

- **Shared services where appropriate/ right sizing:-**

  - Review shared service opportunities (years 3 to 5) with the CCG, WECA, and other local authorities;
  - Assess future staffing and management requirements to deliver the new delivery model.

- **Targeted capital spend:-**

  - Ensure that capital spend is approved using the new approach outlined under Capital Programme below.

- **Managing Demand (and the processes surrounding demand)**

  - E.g. signposting and investing in self-help and early intervention to reduce demand on specialist roles.

- **Contract Savings**

  - Where efficiencies can be delivered.

5.2.5 Organisational Impact (Leading Together Change Programme)

There is a staff savings target of £8m to be achieved through management restructuring and organisational redesign, as well as programme of staff savings linked to transformation. Initial staff consultation regarding management arrangements and organisational design will coincide with the publication of this budget report. Transformation will include smarter working (building on the existing flexible working) designing digital services (Digital by Choice), plus further developing shared services with WECA, CCG and potentially neighbouring Councils. The organisational redesign and staff reductions will be part of the transformation and will need to reflect the wider changes anticipated from other aspects of transformation.

It has already been reported that the salary savings, linked to the budget proposals for the next two years, are anticipated to roughly equate to 300 FTE posts. The planned phasing envisages these savings being split with two thirds being delivered throughout 2018/19 with the other one third as early as possible in 2019/20. This Council has previously been able to minimise the need for compulsory redundancies by seeking volunteers with a suitably targeted approach, redeployment and by anticipating natural staff turnover. It is intended that similar approaches will continue based on existing HR policies, but the scale of the savings, as well as the organisational redesign, will mean that a significant level of compulsory redundancies is likely.

It is intended that by applying the right processes and principles the changes will result in:

- Streamlined management arrangements and removal of artificial departmental boundaries;

- Continued delivery of corporate priorities despite lower levels of resources;

- Protection of key front line services as well as certain critical internal functions required for sound governance, legal and financial administration;

- Staff being appropriately supported, with morale and performance maintained as far as reasonably possible

In more detail the Council will:

- Seek to protect critical operations

  - Public service delivery examples

    - Care Acts
    - Mental Health Acts
    - Children's Acts
    - Health & Safety of Public (Environmental Health, Health protection, Public Health, Waste, Highways, Licensing, Planning)

  - Council functioning and business continuity which support:

    - Sound corporate governance
    - Safe and transparent decision making
    - Efficiency and VFM/BV
    - Protect our people and core assets

- Reduce and refocus "senior" capacity (i.e. Grade F and above) to reflect corporate priorities, build organisational cohesion and agility and promote authority to act and accountability.

- Integrate and centralise Cross-Council functions to maximise efficiency and link capacity to corporate priorities. Examples: marketing, communications, I.T, Training, Health & Safety etc.

- Integrate and streamline all business support functions – could be Department based or Cross-Council to reduce spend, standardise core processes and increase efficiency.

- Rationalise and secure effective use of existing office accommodation so that use of key sites is maximised.

- Actively Promote “Digital by Choice” to minimise F2F and transactional telephone calls to promote self-service, make savings and protect service areas where F2F is critical.

- Adopt a strategic commissioning approach to deliver options to:
  - Commercialise
  - Divest
  - Share
  - Reduce
  - Stop

  all non-critical services over 2018-20 financial years.

NB: Rationalisation and integration can include work with the Clinical Commissioning Group.

The Council’s efficiency strategy was approved by Council in November and has been updated in this budget report to deliver the new and revised savings proposals. The strategy enables the one off costs of changes to be funded from capital receipts; and these one off costs include: investment in transformation, development of shared services together with staff severance costs. Within the £14m target, £2m is required to facilitate the Leading Together Programme and it is recommended that this is delegated to the Chief Executive in consultation with the Leader of the Council.

The Council will be taking a phased approach to the delivery of staffing savings proposals to help manage the organisational impact; as a result a “revenue smoothing reserve” will be used to enable the organisational changes to be phased in.

The wider reorganisation will be phased, taking into account projects that are already underway; with the majority of posts being removed by 30 September 2018. Where expressions of interest in voluntary redundancy are agreed, key decision making milestones for staffing savings are the 31 March, 30 June, 30 September or 31 December 2018 depending on service need and cost. It is anticipated that further savings in 2019/20 will also be delivered on a phased basis consistent with the time table above. The timetable for change needs to be achieved to avoid excessive reliance on the smoothing revenue reserve to fund salaries. Details about the relevant reserves and projected use of capital receipts are set out in section 5.5.

The capital programme refers to the Council’s Digital Programme and Digital by Choice. Investing in new digital ways of working, whilst enabling those that need to access face to face services to continue to do so, will be a key method of ensuring the organisation continues to have the capacity it needs.

Although there are risks from reducing staffing levels, similar programmes are now commonplace in local government. This Council has successfully implemented similar programmes in recent years, albeit on a more limited scale. There is of course a limit to what can be achieved without significant impacts on services and this Council's costs already generally benchmark well. Income has already been grown through commercial opportunities such as within Heritage, the Council's property company ADL, and the commercial estate; and this has been used to help fund the demands on services such as social care. Staff reductions, organisational change, digital and shared services are therefore the main additional opportunities available to the Council to enable a balanced budget. The risks will be carefully monitored as the changes are implemented and any necessary policy issues that arise will be reported to Cabinet or Council as appropriate.

The robustness statement in this budget report considers further the risks that apply. Essential mitigations include the availability of one off funds to enable the required changes, clear programmes to effect staff reductions and organisational change, and a well-resourced digital strategy. It is assumed that savings from greater levels of shared services will not be realisable in the next financial year, but the processes to enable this to happen in future years' needs to start now. This budget allows for the necessary provisions to support these changes and the relevant programmes are in place. The next steps following consideration of this budget will need to include regular monitoring of progress and good programme management of all the changes.

5.2.6 Thermae Bath Spa – Profit Share Income

Included within the savings listed in Annex 2 is an increase in the profit share income from the Thermae Bath Spa. The Council currently receives an annual share of the profits generated by the spa operator (TDC – part of the YTL Group) based on a complex formula agreed as part of the original lease and water supply agreements. In recent years this profit share has provided a significant contribution to the Council's revenue income budget – now equating to around £1m per annum.

The profit share calculation as it is currently constructed requires a considerable amount of officer time and input (on both sides) to monitor and deliver and can also act as a potential barrier to capital investment in the business itself.

It is therefore proposed to seek a simplification of this approach going forwards to a model based on the Council receiving a flat rate share of the company's turnover. The level of this would be set to protect existing levels of income whilst seeing the Council directly benefit from future increases in turnover regardless of associated costs. Such an approach would also be simpler to monitor and administer. The proposed level would equate to a 10% share of turnover. The turnover of TDC has increased every year since opening now running in excess of £11m.

In order to implement these arrangements it will be necessary to work with YTL to secure consent from "Big Lottery" and final approval will be made by Executive Decision.

As part of the negotiations on this matter with YTL, it is also proposed to explore the potential to extend the existing lease (38 years remaining) by a further 50 years securing the income sharing arrangements for the Council in the longer term. Any such lease will be subject to appropriate valuations and may generate a further capital receipt for the Council.

5.2.7 Budget Rebasing Review

As part of the budget setting process a review has taken place of income and expenditure budgets as part of the robustness process. Budget planning had previously identified a £5m gap for 2018/19. An assessment of the delivery of previous savings plans, additional demand pressures, and the budget monitoring position in 2017/18 has been kept under review. Although the budget is forecast to be £3.4m over at the end of 2017/18 once off use of the Adult Social Care Reserve has been made and once-off mitigations such as holding vacancies have been implemented to achieve this. This process has highlighted a need to rebase budgets totalling £7.8m to ensure that budgets accurately reflect required spend. The key budget pressures added to the budget for 2018/19 are Adult Social Care £3.0m, Children's Services £1.4m, Special Educational Needs and Disability £2.3m (a new pressure as a result of funding changes), and other pressures including legacy issues £1.1m.

The requirements for rebasing, demand and inflation for Adult Social Care and Children's Services are highlighted below:-

<u>Adult Social Care</u>

The additional funding requirement into Adult Social Care has taken into account the following items to ensure that the 2018/19 budget proposal is aligned with forecast demand modelling:

- Budget Rebasing to recognise 2017/18 recurring budget pressures.
- Demand planning using service user and local population trends.
- Market analysis to consider the future year's inflationary pressures.

In addition savings proposals have been developed to help manage demand and re-direct funding through efficiency savings. This has resulted in growth after savings into Adult Social Care of £3.94m; the table below gives a summary of the budget planning assumptions.

Adult Care, Health & Wellbeing Portfolio:-

2018/19 Budget Growth	**£'m**
General (Including Inflation)	1.031
Increase in Service Volumes	2.848
Other	0.298
Additional items	
Social Care 2017/18 recurring placement pressures	3.000
Total Growth	**7.177**
2018/19 Savings Proposals	(3.237)
Net Budget Growth	**3.940**

Children’s Services

The 2018/19 budget proposal has also recognised the funding pressures in Children’s placements including SEND / High Needs as mentioned in the Schools Funding section of the report. The budget has been rebased to recognise the recurring cost pressures to give a growth after savings into Children’s Services of £3.082m; the table below gives a summary of the budget planning assumptions.

Children and Young People Portfolio:-

2018/19 Budget Growth	**£'m**
General (Including Inflation)	0.443
Increase in Service Volumes	0.170
Other	0.030
Additional items	
Special Education Needs Spend Pressure	2.300
Children, Young People & Families - Social Care placement pressures	1.380
Total Growth	**4.323**
2018/19 Savings Proposals	(1.241)
Net Budget Growth	**3.082**

5.2.8 Formalisation of Previous Decisions

The following items have been added to the revenue base budget from 2018/19:-

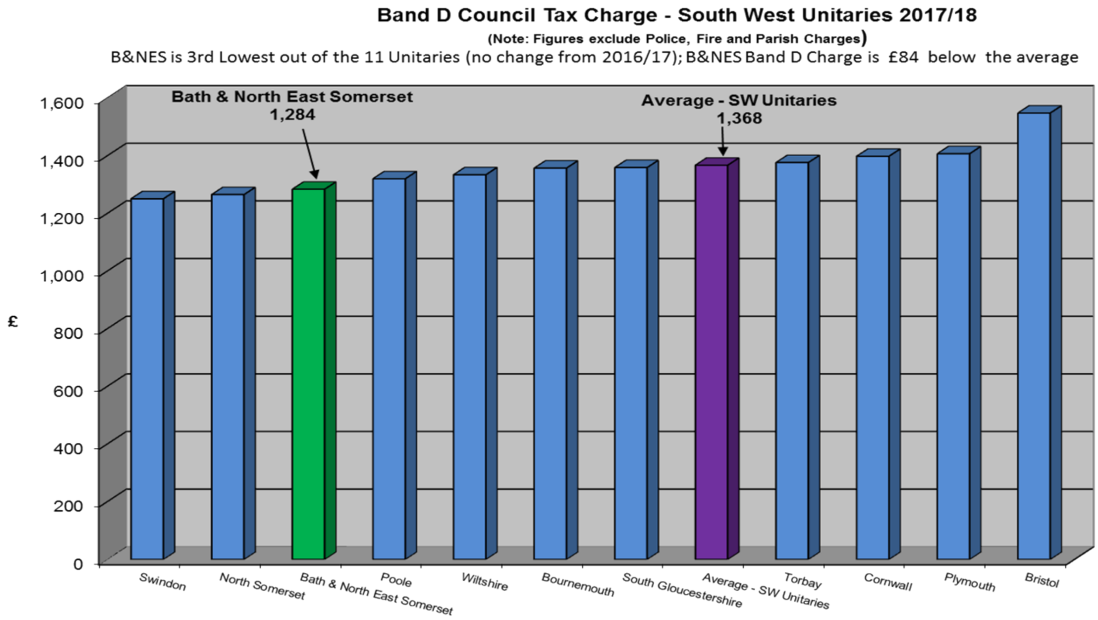
- Urban gull control - £0.07m
- Support for the Duke of Edinburgh Scheme - £0.01m
- Funding of Council Tax Discounts for Care Leavers and Foster Carers - £0.04m

5.3 Council Tax

5.3.1 Band D Equivalent Council Tax

The MTFS did not include any assumptions on increases in Council Tax. The proposal within this report is to increase general Council Tax by 1.95% in 2018/19 to ease pressures within front line services but specifically Children’s Services and SEND. This will increase a Band D by £25.04 for 2018/19 to £1,260.52. The tax base for 2018/19 is 64,346.64, an increase of 350.48 from 2017/18.

The diagram below shows that B&NES had the third lowest Council Tax of the South West Unitary Authorities in 2017/18:-



As billing authority, B&NES has to calculate a basic level of tax based on its own spending plans, to which is added the precepts from, Adult Social Care, Avon Fire Authority, Avon and Somerset Police Authority, and any town/parish Council. The actual total of Council Tax for Bath and North East Somerset residents has been calculated as all of the precepting authorities have notified B&NES of their proposals – these are set out in Annex 10.

The Government outlined in the settlement that it was increasing the referendum level for Council Tax from 2% to 3% before a local referendum was required in recognition of the financial difficulties local authorities are facing.

5.3.2 Adult Social Care Precept

The Government has recognised some of the pressures facing Adult Social Care (ASC) authorities, providing for a continuation for a specific increase in the local Council Tax precept ringfenced to ASC. B&NES approved an increase of 2% in 2017/18 and it is proposed to increase the precept by 3.0% in 2018/19 (this would increase the Adult Social Care Precept to £87.37 an increase of £38.52 from 2017/18), with a further 1% in 2019/20 to meet the increasing demands on this service.

5.3.3 Estimates for Future Years Band D Council Tax

The current Medium Term Financial Strategy **has not factored in any future increases** in Council Tax other than a further Adult Social Care precept of 1% in 2019/20.

5.3.4 Council Tax Support

The Council Tax Support Scheme has been updated to reflect upper and lower thresholds – see link as follows http://www.bathnes.gov.uk/CouncilTaxSupportScheme2017-18. The tax base currently assumes the same number of recipients as at the end of November 2017 will continue into 2018/19. The budget requirement is £8.9m compared to £8.1m in 2017/18.

The Revenue Support Grant passported to the Town and Parish Councils will reduce to zero by 2019/20, with the exception of Radstock where the grant will be phased out by 2021/22 to take account of their relatively higher dependency on the grant as a result of having a higher proportion of Council Tax Benefit claimants under the old scheme.

5.3.5 Discretionary Council Tax Discounts under S13A [Local Government Finance Act 1992]

The Council Tax Policy for Discretionary Discounts has been updated to award discounts of 25% to Foster Carers when fostering children for and within B&NES and 100% discount for Care Leavers aged up to 25 residing within B&NES. The policy was discussed at Cabinet on the 7th February and a link to the report can be found under background papers. The overall estimated cost of £45,000 has been added to the budget as the cost cannot be shared with other precepting authorities.

5.4 West of England Combined Authority (WECA)

The Budget for the WECA will be set on 2nd February 2018 by the WECA Committee – at the time of writing the budget assumptions set out below are based upon the WECA Budget proposals and are subject to the outcome of the above meeting.

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

- Capital Grant payments in respect of Highways Maintenance and Transport Improvement funding will continue in line with the 4-year allocations provided indicatively by DfT covering 2017/18 to 2020/21. The total allocation for the Council is £4,829,000 including £632,000 for the highest level of incentive grants which is automatically provided for Mayoral Combined Authority areas.

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

- Contributions to the WECA from the Council (from existing budgets) to meet the Levy for costs of associated transport functions (concessionary travel, community transport and bus information). The basis of the Levy remains in line with the Councils estimated share of costs. The net impact is neutral for the Council reflecting the movement of funds in line with the devolution arrangements.

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

- Grants funding received from the WECA for feasibility studies and business case development for infrastructure schemes include:

  - £280k A37 to A362 Improvements to access Somer Valley Enterprise Zone business case development;

  - £460k Hicks Gate Roundabout improvement business case development;

  - £250k East of Bath Link development support; and

  - £100k Freezing Hill Lane Junction Improvement feasibility and business case development.

  These are funded from the additional investment funds received by the WECA as part of the devolution arrangements and reflected accordingly with the Councils revenue and capital budget proposals. Further bids for infrastructure funding may be made in line with the WECA Strategy and Assurance Framework and may come forward for inclusion in the capital programme in line with future delivery arrangements.

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

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

The WECA will not seek to hold specific financial reserves. The associated risks will be mitigated through a number of financial control and management measures although as WECA is not a precepting body, it is ultimately underwritten by the constituent Councils.

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

5.5 Revenue Balances, Contingency & Reserves

Reserves are amounts that have been set aside from annual revenue budgets to meet specific known events that will happen in the future. An estimate of the key reserves has been made for 2018/19 and future years using capital receipts flexibility mainly to fund restructuring and severance costs in 2017/18 to 2019/20.

	Estimated Balance 1/4/18 £'m	**Estimated Balance 31/3/19 £'m**	**Estimated Balance 31/3/20 £'m**	**Estimated Balance 31/3/21 £'m**	**Estimated Balance 31/3/22 £'m**
Revenue Budget Contingency	1.5	1.5	1.5	1.5	1.5

	Estimated Balance 1/4/18 £'m	Estimated Balance 31/3/19 £'m	Estimated Balance 31/3/20 £'m	Estimated Balance 31/3/21 £'m	Estimated Balance 31/3/22 £'m
Financial Planning and Smoothing Reserve	6.4	2.3	-	-	-
Transformation Investment Reserve	1.8	-	-	-	-
Restructuring & Severance Reserve	2.0	2.0	2.0	2.0	2.0

5.5.1 Movement of Reserves for Approval

To ensure that reserves are positioned to meet the budget requirements next year the following transfers are required:-

From:	To:	Amount Required £'m
Revenue Budget Contingency Restructure and Severance Reserve	Unearmarked Reserves	1.1 0.3
ICT Reserve	Financial Planning and Smoothing Reserve	0.7
Unearmarked Reserves	Invest to Save Reserve	1.5
Restructure and Severance Reserve	Transformation Investment Reserve	0.2

5.5.2 Revenue Budget Contingency

The primary purpose of this reserve is to fund in year unforeseen events, overspends, and to meet the risks of non-delivery of budget savings. A sum of £1.5m has been set aside for 2018/19 to mitigate these risks.

5.5.3 Financial Planning and Smoothing Reserve

The Financial Planning Reserve will be used to smooth the delivery of organisational change. It has been estimated that within the savings plans proposed the Council will downsize by approximately 300 FTE's by the end of 2019/20. Around 200 of these are scheduled for 2018/19 and it will not be possible to deliver the full savings by the 1st April. An allowance of

£3.9m in 2018/19 and a further £2.3m in 2019/20 has been set aside in line with the timescales outlined in this report. An allocation has been made for 2018/19 to fund once-off expenditure of £0.15m to implement the Car Parking Strategy and a further £0.04m to fund the Collection Fund Deficit for Council Tax.

5.5.4 Transformation Investment Reserve

The reserve was set up to deliver the Strategic Review savings. The reserve was realigned in the MTFS to fund commitments from this reserve from flexible capital receipts and transfer and most of the reserve to the Financial Planning and Smoothing Reserve. The remaining sum in this reserve is fully committed.

5.5.5 Restructuring and Severance Reserve

The reserve was set up to fund severance costs and will only be utilised in future for spend that is not linked to a specific budget savings plan or where there are insufficient capital receipts to fund severance costs. The requirement for this reserve will be reviewed once the required flexible capital receipts target is reached.

5.5.6 Invest to Save Reserve

The current process for an "Invest to Save" proposal is that schemes can borrow Unearmarked Reserves for new projects that make savings and repay the sum borrowed over an agreed period of time. However, at present this could reduce Unearmarked Reserves to a minimum of £7.5m which given the Council's current financial position has been revisited. It is therefore proposed that current "Invest to Save" commitments of £1.3m plus a further £0.2m for new schemes are transferred to a new specific reserve that is capped at an overall £1.5m. The fund can then be recycled as funding can be released to new bids as repayments are made. Any requests will require the approval of the S151 Officer in consultation with the Portfolio Holder – Finance and Efficiency.

5.5.7 Reserves and Flexible Capital Receipts

Flexible capital Receipts can be used for revenue spend that results in ongoing revenue savings. At present a target of £14.0m has been set through the Efficiency Strategy attached at Annex 4 and this will be updated over time to reflect needs. Currently £9.5m of capital receipts through estate assets, land holdings etc have been identified leaving a further £4.5m to find. A review will take place with our property partners HTC to identify the remaining receipts over the next few months.

	Estimated Usage 2017/18 £'m	**Estimated Usage 2018/19 £'m**	**Estimated Usage 2019/20 £'m**	**Estimated Usage 2020/21 £'m**	**Estimated Usage 2021/22 £'m**
Flexible Capital Receipts	1.6	8.4	4.0	-	-

5.5.8 General Fund Unearmarked Reserve

The General Fund Unearmarked Reserve is retained to meet the Council's key financial risks. In removing and capping the "Invest to Save" element the reserve is retained purely to meet those risks. The risk assessment has set a range of between £11.9m and £13.1m to meet those risks. The current estimate is that as at 1/4/2018 the reserve will total £12.2m and will remain sufficient to meet those risks.

5.6 Robustness of and Risks within the Proposed Budget for 2018/19 Statutory Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves and Balances

5.6.1 Introduction

The Local Government Act 2003 states that when a local authority is preparing its budget, "the Chief Finance Officer of the authority must report to it on the following matters:—

(a) the robustness of the estimates made for the purposes of the calculations; and
(b) the adequacy of the proposed financial reserves."

And goes on to state that the authority "shall have regard to the report when making decisions about the calculations in connection with which it is made."

This report has been prepared by the Strategic Director – Resources (CFO) to fulfil his duty and gives the required advice relating to the 2018/19 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council in this budget. Also, it identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2018/19 budget to inform the advice.

5.6.2 Executive Summary of the Strategic Director - Resources (CFO) on the budget position

For 2018/19 the total gap before savings is £17.0m, this is comprised of budget rebasing brought forward from 2017/18, budgets updated for inflation and demographics, the loss of Revenue Support Grant in 2018/19 but partially offset by business rates and tax base growth including the proposed Council Tax increase, and other budget changes.

The assessment of the plans to close the gap outlines a requirement for up to £3.9m of funds from the Financial Planning Reserve to smooth the delivery of savings in 2018/19 as they cannot all be delivered by the 1st April. It will also require a Revenue Budget Contingency sum of £1.5m to reflect the assessed level of risk associated with the scale of savings and further unknown pressures and demographics in 2018/19.

In addition to this putting forward a balanced budget for 2018/19 is highly dependent on the flexible use of capital receipts to fund redundancies and once-off costs such as transformation to deliver the savings required. If sufficient receipts are not achieved the

Council will have to fund redundancy costs from other reserves bringing them below required levels.

Delays to the timescales outlined for delivery of savings will impact adversely on remaining reserves and as a consequence reduce non-earmarked balances below the minimum level required.

5.6.3 Consequences of Failing to Deliver a Budget

If the Council is unable to produce a budget or a plan for reducing the budget requirement for future years or finds it cannot deliver the budget in year, the CFO (under s151 of the Local Government Act) would be required to produce a Section 114 report.

Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the CFO, in consultation with the Council's Monitoring Officer and Head of Paid Service, if "the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure" (i.e. there is likely to be an unbalanced budget). In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publication of such a report starts an immediate 'prohibition period'. This means that everyone who has delegated authority to spend the Council money, immediately has those powers suspended during the prohibition period, and only the CFO can authorise new commitments.

5.6.4 Report of the Strategic Director – Resources (CFO) in Respect of Statutory Duties

The Budget Report as a whole sets out the Council's financial position and budget. This is the formal report and is part of a continuum of professional advice and is the culmination of a budget process in which lots of detailed work has already taken place with Directors, Senior Managers and their teams and Members. This section provides a summary of the conclusions which are considered in more detail within this report and its appendices.

In respect of the robustness of estimates, estimates have been prepared by Directors and their staff supported by appropriate finance staff in accordance with Budget Guidelines. Each Directorate has completed a Robustness Statement outlining savings and delivery risk that have been incorporated into a corporate wide assessment. A sum of £1.5m Budget Contingency Reserve has been allocated to mitigate the risk of savings not being realised in 2018/19. This contingency includes a general provision as well as allowances against various specific savings and is intended to increase confidence in the deliverability of the overall budget, especially when coupled with the inclusion of known pressures within the estimates, including Adult Social Care and Children's Services.

The total known pressures of £7.8m from 2017/18 have been rebased to ensure there should be sufficient funds to meet service demand and delivery costs as currently forecast. SMT has considered on several occasions during the development of the budget the financial pressures the Council is likely to face during 2018/19 and the need for additional resources.

Given the over budget position in 2016/17 and likely outturn in 2017/18, it has been critical to review those pressures as well as demographic demand and inflation (a total of £12.5m) to prepare a robust budget for 2018/19. Monitoring of the budget especially around demand pressures in Adult and Children's Services will be critical to identifying any emerging issues as quickly as possible.

In the context of this report as a whole, clearly the financial position is challenging, but the **CFO concludes that the estimates are robust**, in that they have been robustly constructed.

With regard to the adequacy of balances, whilst the minimum level of General Fund Unearmarked Reserve of £12.2m (within the required range of £11.9m to £13.1m) is preserved, the Council is highly dependent on the use of flexible capital receipts to achieve its budget aims. Achievement of capital receipts income of £14.0m by the end of 2019/20 is therefore imperative to the delivery of the budget.

The conclusion of the CFO is that the estimates for 2018/19 are robust and the budget is lawful, balances are adequate but highly dependent on the achievement of the capital receipts target.

5.7 Capital Programme and Capital Receipts 2018/19 to 2022/23

5.7.1 Efficiency Strategy

Central Government outlined in December 2015 that local authorities will be able under certain circumstances to utilise capital receipts for revenue expenditure for certain purposes. This was updated in March 2016 which outlined a simpler approach to allow authorities to utilise receipts if the spend resulted in an ongoing saving. The guidance is clear however that expenditure should be once-off and the flexibility cannot be utilised for ongoing expenditure. The flexibility was due to end in March 2019 but the Government has extended this in the settlement for a further three years.

Council approved its' Efficiency Strategy in November 2017. The Efficiency Strategy is fundamental to funding the once-off costs to deliver savings plans. The target is to utilise £14m of flexible receipts to 2019/20. An updated Strategy is attached at Annex 4 to reflect proposed savings plans and must be approved by Full Council. A revised strategy may be replaced by another during the year.

5.7.2 Review of the Capital Programme

A review of the capital programme was carried out as part of preparing next year's budget with the following objectives:-

- To ease staffing capacity issues;
- Ease financial pressures;
- Review financial and delivery risks.

The Capital Programme reflects the amendments outlined below:-

Capital Project	Total Budget 2017/18 £'m	Total Budget 2018/19 onwards £'m	Amount to be Removed £'m	Funding	Comments
Place Schemes					
Manvers Street	0.057	-	0.057	Service Supported Borrowing	Propose deletion.
Midsomer Norton Town Hall Transformation Project	0.110	2.570	2.680	Corporate Borrowing / Capital Receipts / Capital Grants	This item is being replaced with proposed new item included in the new & emerging items listing for public realm, in addition property works have been included within the capital planned maintenance for the both the current and next financial years in connection with an asset transfer.
Somer Valley Business Centres	1.200	-	0.200	Corporate Borrowing / S106	Proposed reduction of £200k with remaining £1m to be supplemented by additional grant funding included on the new & emerging items listing.
East of Bath Park & Ride	9.215	-	9.215	Corporate Borrowing	Being replaced by a new & emerging item listing for Strategic Transportation Programme.
Subtotal	**10.582**	**2.570**	**12.152**		
Resources Schemes					
Grand Parade & Undercroft	4.774	-	4.649	Service Supported Borrowing	Adjust budget to reflect proposed change to disposal with minor enhancement in terms of a development agreement, rather than full development.
Print Services - Equipment Investment	0.300	-	0.300	Service Supported Borrowing	Propose deletion, no longer pursuing scheme.
Energy Services Investment	1.500	1.500	3.000	Service Supported Borrowing	Propose deletion, no emerging schemes with a sufficient payback identified.
Energy Efficiency Fund (was Biomass)	0.500	-	0.500	Corporate Borrowing	Propose deletion, no viable investment identified

Capital Project	Total Budget 2017/18 £'m	Total Budget 2018/19 onwards £'m	Amount to be Removed £'m	Funding	Comments
Communications Hub	0.096	-	0.096	Service Supported Borrowing	Propose deletion.
Libraries	3.558	2.395	2.953	Service Supported Borrowing, S106 & Capital Receipts	Proposed reduction from provisional sum reflecting lower level of anticipated costs following further assessment and in light of decision on location.
Subtotal	**10.728**	**3.895**	**11.498**		
People & Community Schemes					
School Energy Invest to Save Fund	0.213	-	0.213	Service Supported Borrowing (DSG)	Proposed deletion of remaining budget as no identified requirements and schools becoming academies
Subtotal	**0.213**	**-**	**0.213**		
Overall Total	**21.523**	**6.465**	**23.863**		
Funding					
Corporate Supported Borrowing			11.214		
Service Supported Borrowing			11.055		
Grants			1.072		
Other 3rd Party & Capital Receipts			0.522		
Total			**23.863**		

The net reduction once replacement schemes are funded is a net saving of £0.125m per annum in revenue costs.

The review outlined further recommendations for the current and future capital programme with the following principles requiring consideration:-

- All existing schemes to be reviewed and simplified, reduced, paused or stopped as necessary;
- Minimise new schemes except those that meet corporate priorities; and;

- Create additional income or savings;
- Address a statutory or health and safety imperative;
- Replace obsolete or inefficient assets/equipment;
- Part of a high priority government funded programme or WoE programme.

5.7.3 Overall Capital Programme & Financing including New Capital Schemes

The detail of new and emerging capital bids is attached at Annex 5(i).

The Capital Programme will retain the clear separation of schemes for **Full Approval** and those which are for **Provisional Approval**.

Items gaining **Full Approval** are clear to proceed to full scheme implementation and delivery, subject to appropriate project management and governance.

It is recommended that the process is amended for items for **Provisional Approval** to move to **Full Approval** through the Strategic Director (who will record the decision) and the S151 Officer in consultation with the appropriate Portfolio Holder and the Portfolio Holder for Finance and Efficiency in line with the Budget Management Scheme. The approval is delegated on the basis that there are no further revenue or capital funding requirements highlighted on completion of the financed business case.

This will enable the projects within the capital programme to be delivered faster but still have an appropriate level of due diligence.

Attached at Annex 5(ii) is the Highways Maintenance Programme, 5(iii) the Transport Improvement Programme, and at 5(iv) the Corporate Estates Planned Maintenance Programme for approval. Once approved it is recommended that the implementation, subject to consultation where appropriate is delegated to the relevant Strategic Director or Divisional Director in consultation with the appropriate Portfolio Holder.

A summary of the proposed capital programme and it's financing for 2018/2019 – 2022/2023 is shown below:-

<u>Capital Schemes For Approval</u>

Cabinet Portfolio: Capital Schemes	Budget 2018/2019 £'m	Budget 2019/2020 £'m	Budget 2020/2021 £'m	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Total £'m
Development & Neighbourhoods	9.131	5.041	-	-	-	**14.172**
Economic & Community Regeneration	37.347	-	-	-	-	**37.347**

Cabinet Portfolio: Capital Schemes	Budget 2018/2019 £'m	Budget 2019/2020 £'m	Budget 2020/2021 £'m	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Total £'m
Transport & Environment	12.633	-	-	-	-	**12.633**
Children & Young People	7.207	-	-	-	-	**7.207**
Adult Care, Health & Wellbeing	0.210	-	-	-	-	**0.210**
Finance & Efficiency	16.533	19.227	4.000	-	-	**39.760**
Corporate Capital Contingency	0.050	-	-	-	-	**0.050**
Total	**83.111**	**24.268**	**4.000**	**-**	**-**	**111.379**

Capital Schemes For Provisional Approval (Subject to)

Cabinet Portfolio: Capital Schemes	Budget 2018/2019 £'m	Budget 2019/2020 £'m	Budget 2020/2021 £'m	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Total £'m
Development & Neighbourhoods	23.533	3.311	2.596	0.950	1.693	**32.083**
Economic & Community Regeneration	33.479	14.142	13.253	14.990	2.135	**77.999**
Transport & Environment	8.889	11.596	6.009	4.933	1.298	**32.725**
Children & Young People	10.802	2.148	-	-	-	**12.950**
Adult Care, Health & Wellbeing	0.098	-	-	-	-	**0.098**
Finance & Efficiency	54.249	5.116	2.544	2.439	2.200	**66.548**
Transformation & Customer Services	3.145	-	-	-	-	**3.145**
Total	**134.195**	**36.313**	**24.402**	**23.312**	**7.326**	**225.548**

Grand Total	**217.305**	**60.581**	**28.402**	**23.312**	**7.326**	**336.926**

Funded By

Financing	Budget 2018/2019 £'m	Budget 2019/2020 £'m	Budget 2020/2021 £'m	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Total £'m
Grant	43.056	9.649	6.974	6.166	3.139	**68.984**
Capital Receipts/RTB	9.966	16.390	0.635	0.635	0.635	**28.261**
Revenue	1.527	-	-	-	-	**1.527**
Borrowing	148.745	33.305	19.956	16.261	3.452	**221.719**
3rd Party (inc S106 & CIL)	14.012	1.237	0.837	0.250	0.100	**16.436**
Total	**217.305**	**60.581**	**28.402**	**23.312**	**7.326**	**336.926**

Note1: The figures in the table above include re-phasing from prior years.

Note 2: Some of the figures in the above table are affected by rounding.

Note 3: The Figures include capital spend of £120m to generate commercial investment returns as outlined in the Council's Commercial Strategy.

Work is currently underway to investigate whether opening a Housing Revenue Account would have a positive impact on delivery of affordable rented accommodation in B&NES. The outcome will not be known until summer 2018.

Capital Risk Contingency

There are three levels of risk provision in relation to the capital programme.

- Individual major projects within the capital programme hold their own contingency in accordance with good project management practise to meet unavoidable and unforeseen costs;

- The capital programme includes a funded corporate risk contingency which will be maintained at £2m;

- The corporate risk assessment on which the general reserves target is based includes an element in the context of the capital programme based on the risks of the current programme.

As with all capital projects, relevant risks are being considered as part of the overall risk-assessed general reserves and the Corporate Risk Register.

Capital Invest to Save

A process for small "Invest to Save" schemes requiring capital funding is currently being investigated with proposals being brought forward once completed.

5.7.4 Minimum Revenue Provision (MRP) Policy

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve a MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy as attached at Annex 6 was updated in February 2017 and there are currently no revisions proposed at this time. However, the Policy may require updating in due course once the outcome of the Government's consultation on MRP requirements are known.

5.7.5 Prudential Indicators

The key objectives of the Prudential Code are to ensure that capital investment plans of local authorities are affordable, prudent, and sustainable. The Capital Prudential Indicators are shown below:-

Prudential Indicator	**2016/17 Actual**	**2017/18 Forecast Outturn**	**2018/19**	**2019/20**	**2020/21**
Estimate of Capital Expenditure (£'000s)					
Actual/estimates of capital expenditure	53,910	127,749	217,305	60,581	28,402
Net Increase in Council Tax (band D per annum) Figures in £'s (not £'000's)					
The implied estimate of incremental impact of the new capital investment decisions on the Council Tax			£13.85	£3.98	£3.19
Cumulative totals:			£13.85	£17.83	£21.02
Capital Financing as % of Net Revenue Stream					
Actual/estimates of the ratio of financing costs to net revenue stream			12.99%	19.21%	21.23%
Memo: estimates of the ratio of financing cost to gross revenue stream			*4.52%*	*6.68%*	*7.35%*
Borrowing Limits (£m)					
Operational boundary – borrowing			£403m	£442m	£451m
Operational boundary – other long-term liabilities			£2m	£2m	£2m
Operational boundary – total			**£405m**	**£444m**	**£453m**
Authorised limit - borrowing			£434m	£473m	£481m
Authorised limit – other long-term liabilities			£2m	£2m	£2m
Authorised limit - total			**£436m**	**£475m**	**£483m**
Capital Financing Requirement (£'000s) (as at 31 March)					
Actual/estimate of capital financing requirement	200,147	282,125	434,016	472,616	481,383

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

After reviewing the capital programme and borrowing proposals, the Section 151 officer reports that the Council will continue to meet the demands of this indicator.

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt (or planned borrowing level) is based on the same estimates as the authorised limit, but including an allowance for cash flow funding of specific capital schemes and without the additional headroom for unusual cash movements.

5.7.6 Community Infrastructure Levy (CIL) Spend Proposals 2018/19

The allocations proposed for CIL spend are attached in Annex 5(v) for approval. These allocations have been included in the capital programme where appropriate.

6. RISK MANAGEMENT

A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

The key risks to the budget are currently assessed as:

Risk	Likelihood	Potential Impact	Risk Management
Further demands on service continue to escalate beyond current estimates	Possible	High	Ongoing monitoring of spend and controls. Ensure reserves are sufficient to manage in-year pressures
Interest rates increase	Likely	Medium	A reserve is available for borrowing to manage market risk and has also been factored into the longer-term MTFS
The authority is currently underwriting part of £2.1m (over three years) in revenue costs from 2020/21 for the Metrowest Project. There also remains a risk of revenue reversion if the scheme does not go ahead	Possible	High	It is proposed that a programme approach is adopted which will remove the potential revenue reversion risk. In order to try to avoid any future revenue operational costs discussions are taking place to include the project within the new franchise process.

Risk	Likelihood	Potential Impact	Risk Management
There may be a requirement for further funding in Adult Social Care community services, as a result of the re-assessment of existing community services contracts identifying on-going cost pressures	Likely	High	Work is currently underway to ensure that any additional requirement has a sound evidence base and that costs will remain within the overall Adult Social Care budget
Volatility and uncertainty around business rates	Likely	High	Ensure business rate income and appeals are monitored and that specific reserve is sufficient to manage in-year volatility
The Business Rates 100% pilot ceases	Possible	High	Will need to monitor closely a return to 49% retention in 2020/21 adds an estimated £3.9m pressure
Anticipated savings not delivered or cannot be delivered because of external challenge	Possible	High	Ensure equalities impact assessments are completed and robust. Monitor delivery plans and continue to assess on a regular basis. Ensure Budget Contingency Reserve sufficient to meet in-year issues.
Reduction in staffing impacts on service delivery	Possible	High	Plans are being put in place to minimise the impact in key front line delivery areas as referred to in this report. Ensure regular communication is made to minimise the impact on staff morale
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Possible	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. Ensure that revenue reserves are sufficient to meet these risks. The new capital programme methodology looks to de-risk projects wherever possible.
Capital receipts in the areas identified are insufficient to meet target	Possible	High	Review receipts regularly – prioritise to meet requirements.
Adult Social Care and Children's Service spend continue to have an adverse impact on the 18/19 budget	Possible	High	Implement enhanced level of operational and financial monitoring in 2018/19. Need to continue to highlight the demand pressures to central Government regarding Adult Social Care and Children's Services
Changes to Government Policy that affects future funding	Likely	High	Need to monitor and continue to highlight impact

Risk	Likelihood	Potential Impact	Risk Management
Economic downturn impacts on commercial income	Possible	High	Portfolio has been diversified to manage some of this risk
Brexit risks	Likely	Medium	. Need to monitor any economic impact.
Funding pressures through partner organisations	Possible	Medium	Ensure good communication links with partner organisations
The additional income from Heritage may not be sustained	Possible	Medium	Continue to monitor income levels

The key risks will continue to be monitored and reported through regular budget monitoring to Cabinet.

In addition this report includes the Section 151 Officer's assessment of the Robustness of Estimates and Adequacy of Reserves. One of the considerations taken into account is the Directors' Review of Robustness of Estimates and Budget Risks/Sensitivities and the Corporate Risk Register. This is completed by all Directors in respect of their own services.

7 RATIONALE

The rationale for the recommendations is contained throughout this report and the accompanying appendices.

The Council's Section 151 Officer is the Strategic Director - Resources. As Section 151 Officer his duties include ensuring a prudent and balanced budget is set on time which properly takes into account the financial constraints and risks facing the Council.

8 OTHER OPTIONS CONSIDERED

The report and annexes also contain the other options that can be considered in making any recommendations.

9 CONSULTATION

Planned public consultation took place in November 2017. Planned scrutiny of the MTFS through the Resources and Policy Development and Scrutiny Panel took place in November 2017. Savings plans were scrutinized through PDS Panels in January 2018.

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Background papers	Commercial Estate Investment Strategy 2018-2019 http://www.bathnes.gov.uk/services/business/property-project-delivery/bnes-commercial-estate-investment-strategy-2018-19 *November/ January/February PDS Panels* Section 13A Exemptions to Council Tax for Care Leavers & Foster Carers https://democracy.bathnes.gov.uk/documents/s49770/E3028%20Care%20leavers%20and%20foster%20carers.pdf
Please contact the report author if you need to access this report in an alternative format	