Report to Council

Medium Term Financial Strategy 2017/18 to 2020/21 – Policy Landscape and Forecast Budget Gap Update

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Reason for Decision

To provide Council with an update of the latest position with regard to the Council's forecast Budget Gap for 2017/18 to 2020/21.

Executive Summary

A report setting out the Medium Term Financial Strategy 2017/18 to 2020/21 – Policy Landscape and forecast Budget Gap Update was presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 10 November and also to Cabinet on 5 December.

In accordance with Cabinet's recommendation to Council, this report advises Council of the key financial challenges and issues which will be faced by the Council over the period 2017/18 to 2020/21 covered by the Medium Term Financial Strategy (MTFS) and advises of the updated budget reduction requirements.

The report includes an update on the national policy landscape within which the Council operates including details of proposed major changes to the Local Government Finance regime with the future introduction of 100% Business Rates retention. Information is also provided on the Devolution Agenda including Health and Social Care Integration, changes to the Better Care Fund, Welfare Reform, the potential implications of the UKs withdrawal from the EU, and on-going consultations in relation to Education Funding including Early Years provision.

The Council submitted an Efficiency Plan to Government on 29 September 2016 in response to a Government initiative in order to secure certainty in relation to Revenue Support Grant funding for 2016/17 to 2019/20. The preparation of this Plan required a full review of the assumptions and projections determining the financial forecasts. This work has been the foundation for this report. Therefore based on current information, trends and demand pressures, the Council will have to continue to make considerable revenue budget reductions over the MTFS period currently estimated to be £20.315m for 2017/18 rising to a cumulative sum of £53.823m for 2020/21.

The reason for the change to the forecast budget reduction requirement reported at Council on 24 February 2016 is set out at Section 4 of the report and this includes the Council's response to the budget pressures it is facing in 2016/17.

The report approved by Cabinet on 5 December 2016 advised of the arrangements for joining Business Rates Pooling and the Greater Manchester 100% Rates Retention Pilot Scheme from 1 April 2017. Cabinet subsequently delegated the decision to join both schemes to the Cabinet Member for Finance and HR, in consultation with the Executive Director, Corporate and Commercial Services and the Director of Finance.

The risks and uncertainties associated with determining the budget reduction requirement are presented at Section 5, together with the issues which will have an impact on the future financial position of the Council including the Autumn Statement which was announced on 23 November 2016 and the Provisional Local Government Finance Settlement which is due to be published by mid December 2016.

Recommendations

That Council:

- Endorses the financial forecasts and budget gap estimates for 2017/18 to 2020/21, and the key issues to be addressed in formulating a response to the financial challenges facing the Council.
- Notes that the budget reduction target may be revised early in 2017 in accordance with local priorities and Government funding and policy announcements together with new developments relating to the risks and uncertainties set out in Section 5 of the report.

Medium Term Financial Strategy 2017/18 to 2020/21 – Policy Landscape and Forecast Budget Gap Update

1 Background

1.1 Each year, the Council has to identify what it needs to spend on Council services for the following year as part of the budget setting process. This process also involves the identification of provisional spending plans for future financial years. This ensures the Council's future spending plans are balanced against the expected funding from Government, Council Tax payers and Business Rate payers. These plans form part of the Council's Medium Term Financial Strategy (MTFS). A report setting out the Medium Term Financial Strategy 2017/18 to 2020/21 – Policy Landscape and forecast Budget Gap Update was presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 10 November and also to Cabinet on 5 December. This report advised Council of the current positon.

1.2 The MTFS is designed to build on the work and achievements of previous years and to help meet the challenges of the future. It is one of the key strategic plans of the Council. Mirroring the Government's own planning timeframes up to the next General Election in 2020, the strategy sets out the Council's proposed revenue spending plans for the next four years and the key factors which will influence the financial forecasts.

1.3 At the same time as considering the financial challenges facing the Council it is important to consider the Council's commitment to the Co-operative way of working. Based on a set of values and the principle of enabling and motivating everyone to "do their bit", this shapes and influences the policy direction of the Council and its response to the financial challenges.

1.4 As an organisation, a co-operative approach provides the opportunity to find positive and sustainable solutions to the on-going financial challenges being faced. Oldham has a values driven approach which underpins the way it does business. The Council believes in the importance of fairness and responsibility. In practice, that means maximising the positive social, economic and environmental impact that can be achieved through everything we do as set out in the Council's values. From procurement practices to pay policy, the Council is using its influence as a commissioner, service provider, facilitator and employer to deliver that added social value.

1.5 Additionally Council services are being re-designed and innovative commissioning models developed to ensure that all our services, whether delivered in-house or with partners, provide excellent and improving value for public money getting the maximum impact for Oldham and its people for every pound spent. The Council is organising itself in a way that enables it to meet the challenges from Central Government whilst also delivering the Administration's priorities.

1.6 The Council's ambition though is for a co-operative future where everyone does their bit to create a confident and ambitious borough. The Council is now five years into this long-term ambition and, having established the co-operative Council ethos within the organisation; it is now focused on working towards a co-operative borough.

1.7 This means that the Council is committed to developing a different relationship with citizens, partners and staff. This means being a Council that listens, responds and engages as locally as possible and has strong civic and community leadership.

1.8 Working with communities at a neighbourhood level, the Council is continuing to enable residents to take greater control over their own lives and over the services and amenities that matter most to them. Power and responsibility is being devolved, and support given to people to do more to help themselves and each other. By building greater resilience and self-reliance, the Council is enabling individuals and communities to make positive choices to change their lives and their neighbourhoods for the better – whether that means small choices that make a big difference, like putting litter in the bin instead of dropping it on the street, or making a big change, like taking control of local services.

1.9 The three corporate objectives set out below focus the activity of the Council in delivering its ambition:

- A productive place to invest where business and enterprise thrive
- Confident communities where everyone does their bit
- A Co-operative Council delivering good value services to support a co-operative borough

1.10 These objectives reflect the on-going commitment to ensure the Council and its partners work with the residents of Oldham to bring about positive change and provide strong leadership for a co-operative borough.

1.11 Working towards achieving its corporate objectives and in spite of the significant budget reduction targets, the Council has prioritised and invested in physical and social regeneration. As a consequence, there have been some significant positive outcomes in the borough even though these are challenging times.

1.12 The Council has developed an exciting portfolio of opportunities demonstrating Oldham is open for business by using its own resources to attract and secure significant additional investment in the borough's amenities. The Council has:

- Transformed the Grade-II listed Old Town Hall building into a family entertainment venue based around a cinema with 800 seats which will bring in an estimated extra 214,000 visits to the town centre annually. This facility opened on Friday 21 October 2016 with a spectacular gala evening attended by thousands of Oldhamers;
- Continued to push forward the flagship "Get Oldham Working" campaign which has seen local employers provide a total of 4,569 jobs, apprenticeship and trainee opportunities to local people since its launch in March 2013;
- Supported the creation of an Independent Quarter in the town centre, approving 74 grant applications to assist businesses and attracted 24 new businesses to locate there;
- Opened new sports centres, in Royton and Oldham both of which are successful. They are not only enjoyed by users of the facilities but also make a positive contribution to the Public Health agenda and the personal wellbeing of the residents of the borough.

1.13 The Council has also invested in its workforce by committing to pay Council employees in line with the higher National Living Wage as championed by the Living Wage Foundation.

2 National Policy Landscape

2.1 In addition to the local influences outlined above, the forecasts in this report are informed by the policy landscape within which Oldham Council operates. The work undertaken by the previous Coalition Government and more recently by the Conservative Government has resulted in major changes to the role of, and arrangements for Local Authorities. This has therefore had a major influence on the operation of the Council, introducing new duties and responsibilities. These therefore shape the operational and financial environment of the Council as well as its approach to addressing financial challenges.

2.2 Recent key changes and forthcoming developments in the policy landscape to which the Council must have regard and respond accordingly are set out in the remainder of this section of the report.

National Political Change

2.3 Since the Government first announced the opportunity to secure guaranteed minimum grant funding over the four-year spending review period there have been unprecedented political and economic developments stemming from the referendum vote to leave the European Union (EU). The result has ushered in a period of volatility in global financial markets and economic uncertainty. Politically, the appointment of a new Prime Minister and a major reshuffle of Ministerial positions that include a new Chancellor of the Exchequer and a new Secretary of State for Communities and Local Government signals the approach to addressing the full economic, political and social implications of leaving the EU. This position in relation to “Brexit” continues to change on almost a daily basis.

Local Government Finance Legislation

2.4 The Local Government Finance Act 2012 introduced the last major revision to the Local Government finance regime. Further significant changes are being developed jointly by the Department for Communities and Local Government and the Local Government sector (through the Local Government Association). A series of working groups have been established to develop the mechanisms for delivering 100% Business Rates Retention, reviewing ‘needs’ versus ‘resources’ as well as accommodating service transfers between Central and Local Government. This work also involves examining Combined Authority/devolution arrangements to ensure these can be accommodated within the new finance system.

Devolution

2.5 The Greater Manchester Devolution Agreement was signed with the Government in November 2014. It brings both the decision making powers and control of finance far closer to the people of Greater Manchester. This gives them and their local representatives control over decisions which have until now been taken at a national or regional level.

2.6 Taking this forward the Cities and Local Government Devolution Act 2016 provides the legislative context which will allow the Greater Manchester Combined Authority (GMCA) to assume responsibilities currently performed and delivered by other public bodies. The key element of this is that such assumption of powers would only be with the agreement of the public agencies involved e.g. Local Authority and Health Authority functions.

Health and Social Care Devolution

2.7 February 2015 saw a Memorandum of Understanding (MoU) signed between the 10 Local Councils that make up the Association of Greater Manchester Authorities (AGMA), all Greater Manchester Clinical Commissioning Groups (CCGs) and NHS England (NHSE). From April 2016 Greater Manchester has taken control and responsibility for the £6bn Health & Social Care Budget and is working to deliver its own sustainable Health & Social Care system by 2021.

2.8 The areas of the Health & Social care system that are included in the agreement are:

- Acute care (including specialised services);
- Primary care (including management of GP contracts);
- Community services;
- Mental health services;
- Social care;
- Public Health;
- Health Education; and
- Research and Development.

2.9 Devolution in Greater Manchester has provided the momentum and impetus to explore how much further and faster GM can move towards realising a financially sustainable health system.

2.10 Oldham Council and the Oldham Clinical Commissioning Group (CCG) have jointly developed a Locality Plan for Health and Social Care Transformation covering the period 2016/17 to 2020/21. The successful delivery of this Locality Plan will mean that both organisations have worked together and will have:

- Transformed the relationship between the population and the health and social care system, so that the public expects services to promote healthy behaviours, independence and self-care and reducing dependency on high cost or institutionalised services;
- A primary care-led place-based health and social care system that maximises the opportunity to pool budgets, integrate commissioning, and that provides outcome-focused integrated care closer to home;
- A health and social care system that is built upon sustainable financial models;
- A workforce that has the skills and capacity to enable people to receive appropriate and timely help and support to address the root causes of health problems as well as the presenting symptoms;
- A health and social care system that recognises and supports a wider associated workforce including carers, other public sector areas such as the fire service, social housing providers, voluntary and community organisations and volunteers;
- Better service quality and improvements in the public's experience of health and social care, delivering greater efficiency, and improved health outcomes;
- Developed an evidence base about the effectiveness of our resilience-focused programmes and have scaled these up across Oldham and fostered the widespread adoption of community development and asset-based approaches; and
- A systematic approach to developing community-centred approaches (including social prescribing) to health and social care, working closely with Oldham's voluntary and community sector.

2.11 The Council is working with the Oldham CCG to consider how the Council's Adult Social Care and CCG budgets can be deployed more effectively by joining up the delivery of services and working around a pooled budget arrangement. This will build upon the existing pooling arrangements for the Better Care Fund. There is still much work to be done to take this forward, but good progress is being made. The recent submission to the Greater Manchester Health and Social Care Partnership of a bid for transformation funds to support joint working initiatives across the health and social care sector is aimed at facilitating the first phase of new collaborative working arrangements. This will link the work of the Council with the CCG, Pennine Acute Hospitals NHS Trust and Pennine Care NHS Foundation Trust across the footprint of the borough. The outcome of this bid is likely to be announced in early 2017.

Better Care Fund

2.12 Clearly aligned to health and social care devolution, the Better Care Fund (BCF) was established in 2013 and provides an opportunity to transform local services to provide better integrated care and support. CCGs and Local Authorities must jointly agree how the funds are spent, so it is essential to ensure the fund is developed in the interests of both parties. As advised above, this has been working effectively for some time. An additional £1.5bn of BCF funding will be available nationally to Local Authorities from April 2017 to support the integration of health and social care. Initial allocations of funding have been included in the Council's financial plans and are passported to health and social care provision.

Welfare Reform

2.13 The Welfare Reform Act 2012 introduced fundamental changes to the social security benefit system. Universal Credit (UC) is becoming the main means-tested social security benefit for people of working age. UC is being phased in across the country with full roll out now scheduled for March 2022. Oldham Council has acted as a pilot Authority for the new regime and as such is one of the first Local Authorities to phase in UC. As more elements of UC are introduced there are likely to be further implications for the Council and benefit recipients. Changes to the Housing Benefit regime introduced during 2016 will continue to impact on those who have not yet transferred to UC. These changes (set out below) will reduce the financial support for those who qualify for assistance:

- Limiting Backdating of Housing Benefit to one month (previously this was six months).
- Removal of the Family Premium for all new claimants.
- Changes to the temporary absence rule. This limits Housing Benefit and Pension credit payment to one month, where previously it was awarded for 13 weeks. This amendment is to align Housing Benefit with Universal Credit Legislation for those who are travelling abroad. This change became effective earlier this year, from 28 July 2016.
- In households with two or more children, if any subsequent children are born after April 2017, the household will no longer be eligible for further support.
- Changes to Universal Credit 'in-work allowances' which have reduced the number of work allowances from seven down to two. This means claimants will have less income resulting in a higher demand for Council Tax reduction.

2.14 Elsewhere on this agenda is a report on the Council Tax Reduction Scheme for 2017/18. The proposal is to leave the scheme unchanged and therefore not to passport the changes to Housing Benefits into the Council Tax Reduction Scheme, thereby mitigating the impact of these changes on the number in receipt of Council Tax reduction.

2.15 The latest available national and local research, data and information, suggests the estimated cumulative loss to Oldham through current and proposed housing benefit changes over the next three years is over £30m. If all proposals are eventually fully implemented, the worst affected 2,000 families in the borough stand to lose more than £3,800 per year as a result of the reforms. Many people will be affected by more than one change. This is likely to impact on demand for Council services as these vulnerable citizens seek out additional help and support. The Council is therefore prioritising initiatives such as the provision of a Welfare Rights team as a means of helping and supporting those in need.

Academies and Education Consultation

2.16 The Government has moved away from its policy of the forced academisation of schools although it remains in support of the academy ethos. More recently, the Government has announced that it would not discourage the creation of more grammar schools. Clearly the direction of the education agenda will influence the activities of the Council. Whilst most financial support for schools is via the Dedicated Schools Grant (DSG), General Fund resources are used for education and related activities.

2.17 The Government is consulting on a number of changes. Consultation on a new national funding formula for Schools ran from 7 March 2016 to 17 April 2016. This consultation contained a number of items that if implemented could have an adverse effect on Council finances. As yet there has been no formal response to this consultation however a written statement from the Education Secretary on 21 July 2016 highlighted the following points:

- In 2017/18 no Local Authority will see a reduction from their 2016/17 funding (adjusted to reflect authorities' most recent spending patterns) on the schools block of the DSG (per pupil funding) or the high needs block (cash amount).
- Final allocations for schools and high needs blocks will follow in December 2016 on the basis of pupil numbers recorded in the October 2016 census.
- For 2017/18, the current minimum funding guarantee for schools will be retained, so that no school can face a funding reduction of more than 1.5% per pupil next year in what it receives through the Local Authority funding formula.
- Proposals to create a new central schools block, allowing local flexibility on the minimum funding guarantee or to ring-fence the schools block within the DSG will not be completed in 2017/18. The position for 2018/19 and beyond regarding these proposals will be announced imminently.

2.18 Clarity was also given on the future of the unringfenced Education Services Grant (ESG) which is used to support General Fund (non-DSG) expenditure. It was announced that the grant would cease in September 2017 but retained funding would transfer into the ringfenced DSG from April 2017. This has had an impact on the budget assumptions and a revision to the original estimate has now been included in the financial projections with a £1m reduction to previously anticipated Education Services Grant funding. However, on 1 December, the Government advised of the removal of the ESG general funding rate. The implications for the Council are currently being examined.

2.19 Guidance has now been received for the funding and reporting of historic commitments for the 2017/18 financial year. This requires Oldham to delegate through the school funding formula, an additional £1.567m to three schools for Private Finance Initiative contracts which will require amendment of the Governors agreement so schools reimburse the Council.

2.20 It also requires Schools Forum to agree to the retention of all other historic commitments. The outcome of this will be known after the Schools Forum meeting of 11 January 2017. Should Schools Forum not agree to some or all of the historic commitments, it would increase the budget gap forecasts included in this report, unless any additional costs can be offset. Options for mitigating the impact on the budget gap could include ceasing service provision and introducing additional charges to schools.

Early Years

2.21 The Government has issued a consultation paper on Early Years funding which includes a proposal that would require the Council to reduce the level of early year's expenditure which it funds from the Dedicated Schools Grant (DSG). The outcome of the consultation process will be announced by the Department for Education during the Autumn Term. If the service provided remains unchanged and can no longer be funded by the DSG, then the impact to the Council's General Fund is likely to be between £0.684m and £0.897m per annum. At this stage given the uncertainty this potential pressure has not been factored into the budget reduction requirement. In addition, on 1 December the Government provided guidance on the Early Years National Funding Formula, the implications of which for the Council are still to be determined.

Education 'Opportunity Areas'

2.22 In October 2016, Justine Greening, the Secretary of State for Education, announced that Oldham is to be one of six national pilot "Opportunity Areas". A sum of £60m is being made available to pilot areas to support work across early years, schools and further and higher education. The DfE also says that it intends to work with local partners in Oldham to tackle the challenges that are faced. It is not yet clear how much of that £60m will be used to support Oldham or indeed what detailed thinking Government has on how it may be used. However, Members will be provided with further information as additional details emerge.

Recently Announced Funding for Education

2.23 In addition to the announcements outlined in preceding paragraphs, the Department for Education advised the Council on 1 December of a number of additional funding allocations that it may be able to access as highlighted below. At this stage, the mechanism for the allocation of these resources is yet to be confirmed.

- From September 2017 there will be a £50 million a year fund for Local Authorities to continue to monitor and commission school improvement for low-performing maintained schools.
- There will be a new £140 million 'Strategic School Improvement Fund' for academies and maintained schools - aimed at ensuring resources are targeted at the schools most in need of support to drive up standards, use their resources most effectively and deliver more good school places.
- Alongside this new work, the Education Endowment Foundation (EEF) has committed to spend a further £20 million over the next two years to scale up and disseminate evidence-based programmes and approaches.

2.24 There are to be a wide range of other initiatives aimed at supporting school improvement including the:

- £41 million maths mastery programme which will see the expansion of high-quality maths teaching across the primary school system to increase the number of children mastering the basics of numeracy.
- £13 million Regional Academy Growth Fund (RAGF) supports successful academy trusts to grow and to improve standards in underperforming schools. Regional Schools Commissioners (RSCs) will prioritise applications that meet the specific needs in their region and of opportunity areas where applicable.
- Teaching and leadership innovation fund worth £75 million over three years focused on supporting teachers and school leaders in challenging areas to develop.

National Living Wage

2.25 The Government's new National Living Wage is now enshrined in legislation meaning all workers aged 25 and over are legally entitled to earn at least £7.20 per hour rising to £7.50 from April 2017 as announced in the recent Autumn Statement. The Government's ambition is for this National Living Wage to increase to over £9 per hour by 2020. As already advised, the Council draws its pay line using the higher National Living Wage as championed by the Living Wage Foundation, so the legislative change had no direct impact on employee costs. However, the cost of externally provided services, particularly with regard to social care provision, has been significant.

2.26 Although the Government has allowed Councils to have some flexibility in dealing with this issue by enabling the raising of a Social Care precept (a 2% increase in Council Tax to be used specifically to finance the cost of social care) in 2016/17 this still left the Council with a deficit of just under £1.200m between resources available (£1.515m) and resources required (£2.700m). This is an on-going financial pressure, which when factored with the increased demand for and complexity of care, will continue to present a significant financial challenge to the Council.

Employment

2.27 A key aim of the Council is to improve employment opportunities for Oldham residents. This is particularly important as in aggregate over the last year unemployment in Oldham as well as across Greater Manchester has seen an upward trend, in contrast to the national picture of falling unemployment. Over the last 12 months, Oldham has seen an increase in unemployment of 0.9%, less than the Greater Manchester average (2.7%), whereas across England (-1.4%) unemployment continues to fall significantly.

2.28 As of October 2016 there were 4,080 unemployed people in Oldham. This represents an unemployment rate of 2.9% which improves Oldham's relative position from second to third highest within Greater Manchester however this remains higher than the national average of 1.8%. Within this figure there were 1,030 young unemployed people (aged 18-24) in Oldham which represents a youth unemployment rate of 5.2%, again improving Oldham's position from second to third highest across Greater Manchester but still higher than the national average of 2.7%.

2.29 Recognising that the skill base of the Oldham workforce needs to be improved, the Council has invested in the skills agenda and, in line with our co-operative vision, the Council's new Work and Skills Strategy aspires to achieve four simple strategic goals over the 2016-20 period:

- Create jobs
- Promote social regeneration and in-work progression
- Deliver the Oldham Education and Skills Commission and improve the colleges
- Support a thriving private sector

2.30 By continuing the Get Oldham Working (GOW) initiative and working with employers across the borough, the Council is striving to provide opportunities to reduce unemployment and improve skills for life for the younger citizens in the borough. Phase one of GOW covering the period from March 2013 to March 2016 saw the creation of 3,787 employment opportunities which included 2,250 people being helped into jobs, together with apprenticeships, traineeships and work experience placements. The second phase of GOW starting in April 2016, has continued this success. The most recent figures available to the end of September, show that 782 employment opportunities have been created.

New Legislation

2.31 The Government set out its legislative programme in the Queen's Speech presented on 18 May 2016. This will result in further changes to the role of, and arrangements for Local Authorities. Key changes in the national policy landscape include:

- **Neighbourhood Planning and Infrastructure Bill –** The aim of the Bill is to streamline planning conditions, give local communities more say over neighbourhood planning and provide a framework for paying compensation.
- **Local Growth and Jobs Bill –** The aim of the Bill is to allow Local Authorities to retain business rates, for new powers to be devolved and to allow combined authority mayors to levy the business rate supplement to fund infrastructure investment.
- **Bus Services Bill** – The aim of the Bill is to allow combined authorities with elected mayors to have the power to franchise local bus services and for Councils to set standards for ticketing, branding, and frequency of services.
- **Children and Social Work Bill** – The aim of the Bill is to speed up adoption procedures, require Councils to tell children leaving care what services they are entitled to and to place a duty on Councils to promote educational achievement for adopted children. It also gives care leavers the right to personal advisers and introduces a new social work regulator.
- **Prison and Courts Reform Bill** – The aim of the Bill is for new reformed prisons to be opened, for Governors to have greater freedom and power, for more information on post-release offending and employment rates to be published and for courts and tribunals to be modernised.
- **National Citizen Service Bill** – The aim of the Bill is to introduce a new statutory framework to deliver the National Citizen Service (NCS) and require all state secondary schools, academies, private schools and Councils to promote NCS.
- **Counter-Extremism and Safeguarding Bill –** The aim of the Bill is to introduce a new civil order regime to restrict extremist activity, introduce new powers of intervention to tackle the radicalisation of children, for Ofcom to have power to regulate internet-streamed material from outside the EU and for the Government to step in to tackle extremism, subject to consultation.

2.32 As each of these Bills receives Royal Assent, they will have an impact on the Council. This may require action including the allocation of additional resources, the reshaping of existing programmes of spending or working with partners and the pooling of resources. However, all new initiatives and programmes of work must be developed within the financial estimates presented in the MTFS.

Business Rates

2.33 In accordance with Government policy, a series of major reforms relating to Business Rates have been announced. Set out below are some of the more significant policy announcements:

- Local Government finance will be reformed in order to pave the way for 100% local retention of business rates by the end of the decade. The reforms will abolish the uniform business rate and provide Councils with the power to cut business rates to boost growth. Some areas including Greater Manchester will pilot these new arrangements from 1 April 2017 (see paragraph 2.46 below for further details).
- Elected city-wide mayors will have the power to levy a business rates premium for local infrastructure projects provided this has the support of local businesses.
- Small Business Rates Relief (SBRR) will be permanently doubled from 1 April 2017. There will also be an increase in SBRR thresholds to benefit more businesses. Businesses with a property with a rateable value of £12,000 and below will receive

100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. Around 600,000 businesses nationally (1/3rd of all properties) will pay no business rates at all.

- The threshold between the small and standard Business Rates multiplier will be increased to a Rateable Value of £51,000 to take 250,000 smaller properties out of the higher rate. Furthermore, from 2020 the annual indexation of Business Rates will be switched from RPI to CPI saving the business community £370m in 2020/21.
- The introduction of a new three-stage approach to business rates appeals (Check, Challenge, Appeal). This will apply to appeals against Rating Lists compiled on or after 1 April 2017.

Impact of 100% Rates Retention on Local Government Finance

2.34 The Government has confirmed that 100% Rates Retention will be implemented on a fiscally neutral basis. Currently, Business Rates revenues are shared 50:50 between Central Government and Local Government. Under the proposed regime, 'fiscally neutral' means the additional Business Rates Councils will retain will replace Revenue Support Grant and possibly certain other specific grants (subject to DCLG discussions with other Government Departments). To help 'absorb' additional Business Rates revenues, Councils may also be provided with additional service responsibilities.

2.35 The practical impact of these reforms is being worked through jointly by the Department for Communities and Local Government and the Local Government sector (through the Local Government Association). A series of working groups have been established to develop the mechanisms for delivering 100% Business Rates Retention, reviewing 'needs' versus 'resources' as well as accommodating service transfers between Central and Local Government. This work also involves examining Combined Authority/devolution arrangements to ensure these can be accommodated within the new finance system.

2.36 The system is expected to operate broadly as it does now (using top-ups and tariffs to redistribute revenues) although it is hoped improved mechanisms are developed to deal with risks relating to rateable value appeals and local economic shocks. Members will recall that 'top up' Authorities collect a lower level of Business Rates than their baseline assessment of need whereas 'tariff' Authorities collect more.

Business Rates Revaluation

2.37 Rateable Values (RVs) are periodically adjusted by the Valuation Office Agency (VOA) to take account of changes in property rental values. The revaluation process typically takes place on a five-yearly cycle. The results of the last revaluation process were implemented on 1 April 2010 meaning the next revaluation date was due to be 1 April 2015. However, the process has been delayed by Government meaning the results of the latest revaluation process will take effect on 1 April 2017.

2.38 Initial business rates revaluation information was released at the end of September. Early results compiled by the VOA suggest there will be significant changes to RVs across information regions. In London for example, RVs are expected to increase by almost 23% whereas in the North-West, values are expected to remain broadly static. Across England, RVs are increasing by around 9%. However, this does not mean Local Authorities will see an equivalent increase in revenue as the Government will adjust the multiplier down to ensure the yield from Business Rates only keeps pace with the Retail Prices Index (expected to be around 2%).

2.39 Initial indications for Oldham suggest that Business Rates payable to the Council are likely to fall by approximately 15.4%. However, to help ensure revaluation is fiscally neutral for different Councils, top up and tariff payments will be adjusted to counter the redistributive effects of revaluation. This should mean that the level of resources available to the Council in overall terms should not be affected by the revaluation exercise. The confirmed and revised rateable values are not expected until mid-December.

2.40 For those businesses facing large bill increases after April 2017, transitional relief for up to five years will be available. Businesses experiencing a fall in their bill will not benefit from this immediately as a 'transitional supplement' will be added to ensure the transitional relief scheme is fiscally neutral.

2.41 Revaluation, along with some of the other above-mentioned policy announcements does bring additional risks which are set out in Section 5.

Business Rates Pooling

2.42 Since Business Rates Retention was first introduced in April 2013, the Government has encouraged Councils to come together and pool their Business Rates Revenues. For pooling to be financially worthwhile, at least one of the member districts needs to be a tariff authority. If the future Business Rates Baseline of a tariff authority grows they generate levy payments on that growth which are paid to Central Government. If levy authorities 'pool' with top-up authorities then growth is measured across a wider base and the levy rate is reduced which means that it is possible to retain levy payments within the pool and invest them locally.

2.43 The benefits of pooling are, however, at risk if one of the member Authorities suffers a major reduction in rates income which would ordinarily trigger a safety net payment from Central Government. If such an authority is part of a pool then it would fall to other members of the pool to fund an individual authority's safety net payment.

2.44 Authorities in the Greater Manchester region have participated in Business Rates Pooling since 1 April 2015. The pooling arrangement for 2015/16 included all ten Greater Manchester districts along with Cheshire East Council. For 2016/17, these pooling arrangements were extended to include Cheshire West and Chester Council.

2.45 At this stage it is not clear whether Business Rates pooling will be an option for 2017/18, however, if the 2016/17 process is applied for 2017/18, then each of the ten GM Authorities will need to make a decision on whether it wishes to confirm its involvement in a 2017/18 pool within 28 days of the issue of the Provisional Local Government Finance Settlement. The Settlement could have an impact on the financial position of each Council thus making pooling uneconomic. At this time it is expected that the Settlement will be announced mid December 2016. In order to comply with the timelines, Cabinet on 5 December 2016 agreed to delegate the decision to the Cabinet Member for Finance and HR, in consultation with the Executive Director Corporate and Commercial Services and the Director of Finance.

The Devolution Agenda – Additional Growth Pilot Schemes

2.46 As part of the devolution agenda, the Greater Manchester region was invited to pilot a scheme for the full retention of business rates growth. The pilot applied to both the 2015/16 and 2016/17 pooling arrangements. The schemes operated as follows:

- Growth was to be measured against an agreed baseline based on district NNDR1 returns (submitted to DCLG in January 2015);

- After 2015/16, the growth baseline for future years will be adjusted to reflect the annual change in business rate multiplier (inflation) plus 0.5% as a stretch target for growth;
- Income will be measured using NDR3 outturn returns to DCLG adjusted for changes in provisions for appeals;
- To maximise the potential for growth, additional income will be measured on a district by district basis;
- Crucially, there will be no additional downside risk or grant adjustment for districts or the pool as a whole if additional growth is not achieved.

2.47 Discussions are still taking place with DCLG regarding the specifics of how to measure growth under these arrangements. In that regard it is still not clear whether these pilot schemes have been successful in generating additional revenues for retention within the region and it is unclear at this time as to whether the Growth Pilot Scheme will continue into 2017/18.

The Devolution Agenda – 100% Rates Retention Pilot Scheme

2.48 As indicated previously, the Greater Manchester Combined Authority Area will pilot 100% Business Rates Retention from 1 April 2017. Discussions are currently being held between the Combined Authority and DCLG to determine the precise operating arrangements for the pilot.

2.49 The purpose of the pilot is to develop and trial approaches to manage risk and reward in a Local Government finance system that includes the full devolution of Business Rates revenues. It is hoped the new system will provide a stable funding stream whilst incentivising economic growth. At present, only half of business rates revenues are devolved to the Local Government sector. These reforms mean business rates revenues will replace Government grant funding and Councils may be required to take on additional service responsibilities.

2.50 A considerable amount of work is taking place to develop detailed proposals for the operation of the GM Pilot. The Government is committed to ensuring the region is no worse off as a result of the pilot. The “no detriment” principle to the piloting arrangements is of key importance to the Council. It is essential that agreement is reached so that it ensures that the Council will be no worse off than if the current arrangements remained in place.

2.51 The pilot scheme for full business rates retention may create further impetus for working jointly across the Combined Authority area. The pilot scheme provides an opportunity to develop new initiatives for cross-authority working in terms of business rates administration and also as part of the growth agenda to attract new businesses to Greater Manchester for the benefit of the region as a whole, as well as individual districts.

2.52 As the detail behind the GM Pilot Scheme and wider reforms are still under development, it is not yet possible to predict whether the pilot scheme and subsequent changes to the Local Government finance regime will be of benefit to Oldham Council. Much of this will hinge on the work being undertaken around needs and resources and whether or not the reformed system will provide a more sustainable and stable platform for future Local Government finances. Oldham Council’s finance service is participating in discussions at Greater Manchester level with regard to the pilot and providing input and support to the DCLG/LGA working groups via SIGOMA and other established networks including those operating at GM level.

2.53 Shortly after the Local Government Finance Settlement is announced, the ten GM Districts are likely to be asked to formally approve their membership of the 100% Rates Retention Pilot Scheme. The precise timeframe for making this decision is unknown at this stage and may not fit within the existing reporting timeframe. Cabinet on 5 December 2016 agreed to delegate the decision on whether Oldham Council should be part of the 100% pilot scheme arrangement to the Cabinet Member for Finance and HR, in consultation with the Executive Director Corporate and Commercial Services and the Director of Finance.

Efficiency Plan

2.54 Members will be aware that an Efficiency Plan was presented for approval to Cabinet on 19 September 2016. This was then submitted to the Department for Communities and Local Government on 29 September 2016. The preparation and submission to Central Government of an Efficiency Plan was necessary to access a guaranteed four year finance settlement for Revenue Support Grant (RSG) covering the period 2016/17 to 2019/20. A thorough review of all the Council's financial projections was undertaken to inform the preparation of the Efficiency Plan and the budget gap figures presented at Section 4 of this report are consistent with those present in the Plan. The Government acknowledged the receipt of the document and on 16 November 2016 confirmed the multi-year finance settlement offer to the Council.

2.55 The Government have also revealed that 97% of Councils, 344 out of 353, have signed up to the multi- year finance settlement and welcomed the take up of the offer.

Autumn Statement

2.56 On 23 November 2016, Philip Hammond delivered his first Autumn Statement as Chancellor of the Exchequer. Several policy announcements were included in the Autumn Statement relating to taxation, spending and investment.

2.57 There were noticeable exclusions from the Autumn Statement and supporting documents as there was no reference to the following items which are of major interest to Local Authorities:

- Adult Social Care pressures or funding to support the pressures including the Improved Better Care Fund;
- The Adult Social Care Precept;
- General Council Tax referendum levels;
- New Homes Bonus Grant.

2.58 There were a number of policy announcements that may have implications for individual Oldham residents relating to taxation, welfare and housing. At this stage, these policy announcements appear to carry no implications for the budget gap estimates set out in this report.

2.59 There were also a number of policy announcements relating to Business Rates reliefs and a statement that 'the burden of Business Rates will be reduced by £6.7bn over the next five years'. However, the Government has an established track record of compensating Local Authorities for the resulting loss of revenue. The current forecasts underpinning the Council's Budget Gap estimates therefore assume such financial compensation will continue.

2.60 The Autumn Statement also included a number of other announcements that could provide Oldham and other Councils with an opportunity to bid for additional resources.

Much of this is derived from the new National Productivity Investment Fund (£23 billion) of which £2.3bn will be available for Local Authorities to bid for as part of a Housing Infrastructure Fund. Additional transport funding may also be available to bid for including £1.1bn of funding to relieve congestion and deliver upgrades to local roads. Outside of the National Productivity Investment Fund, £170m has been made available for investment in Flood Defence.

2.61 There were also announcements relating to the Northern Powerhouse and Devolution agenda which could benefit Oldham directly or indirectly including:

- The preparation and publication of a Northern Powerhouse Strategy including a £400m 'Northern Powerhouse Investment Fund for investment in small to medium sized enterprises;
- A share of £556m for Local Enterprise Partnerships in the North of England;
- Additional powers that allow mayoral Combined Authorities to undertake borrowing; and
- The transfer of the budget for the work and health programme to GMCA subject to meeting certain conditions.

3 2016/17 Revised Budget and Year End Forecasts

3.1 The starting point for the consideration of the 2017/18 budget is the current 2016/17 budget position. Since the 2016/17 budget report was approved by Council on 24 February 2016, there have been a number of further one off funding allocations and amendments. These are detailed in the table below. The budget for 2016/17 has therefore increased to £191.143m as reported in the month 6 financial monitoring report approved at Cabinet on 21 November 2016. The revised 2016/17 budget therefore becomes the revised base budget for 2017/18.

2016/17 Revised Budget

	£000	£000
Net Revenue Budget as at 24 February 2016		**190,323**
Adjusted for use of reserves		330
Adjusted Net Revenue Budget		**190,653**
New One-Off Grant Funding Adjustments		
SEND Regional Lead Grant	24	
Extended Rights to Free Travel	23	
Staying Put Grant	59	
Welfare Reform	63	
Local Reform and Community Voices	154	
Housing and Council Tax Administration Grant	104	
New Homes Bonus	135	
Small Business Rates Relief Grant	35	
New Burdens Funding	1	
Local Lead Flood Authority	1	
Reduction in Multiplier Cap Grant	(109)	
Total Budget Adjustments		490
Total Revised Net Revenue Budget		**191,143**

3.2 The table below details the 2016/17 Quarter 2 year-end forecast position against budget for each Portfolio after the planned transfers to and from reserves. This was approved by Cabinet on 21 November 2016.

Portfolio	Budget £000	Forecast £000	Variance £000
Chief Executive	3,629	3,509	(120)
Corporate and Commercial Services	6,138	5,966	(172)
Economy, Skills and Neighbourhoods	79,609	80,560	951
Health and Wellbeing	87,128	90,789	3,661
Capital, Treasury and Corporate Accounting	14,639	10,205	(4,434)
NET EXPENDITURE	**191,143**	**191,029**	**(114)**

3.3 Whilst overall corporately there is a small under spend projected at the end of the financial year, the key variance to note is a £3.661m projected over spend within the Health and Wellbeing Portfolio predominantly attributable to Adult Social Care (£2.852m). This adverse variance is largely related to demand led pressures due to the increasing longevity of the population and the resulting complex care requirements. Care packages are more expensive, and while the Council is working in conjunction with the Health sector to reduce the number of delayed transfers of care and to release NHS beds, this is increasing the number of residential placements required and hence increasing costs. There are also costs pressures in relation to Children's Safeguarding services particularly around looked after children, another demand led service.

3.4 Recognising the continuing upward spending trend in these areas and the demand led nature of these pressures, the financial forecast for 2017/18 and future years has been adjusted by £3.000m to accommodate these on-going issues as identified later in the report.

4 Forecast Budget Gap Update

4.1 In addition to the budget for 2016/17, the Medium Term Financial Strategy approved by Council on 24 February 2016 detailed the financial challenges facing the Authority over the five year period to the financial year 2020/21 and included a forecast of the budget reduction requirements needed to achieve a balanced budget over that period. At that time, the Council had a balanced budget position for 2016/17 and the Budget Gap for 2017/18 was reported to be £20.464m rising to £63.584m by 2020/21.

4.2 Clearly, since February, there have been a number of developments both locally and nationally which have had an influence on the financial position of the Council as outlined below.

Revised Estimates of Expenditure Pressures

4.3 As advised previously, the Council has carried out a detailed review of the assumptions and methodologies used to calculate the budget reduction requirements for this financial planning period. This was informed by new or updated funding notifications from Central Government, trends in inflation, other Government policy announcements and changes in issues directly under the influence of the Council, for example revisions to capital spending plans. It also assumes as the starting point that expenditure and activity levels will continue as in 2016/17, adjusted for any approved budget reductions, growth items and additional burdens arising from new legislation or Central Government policy initiatives.

4.4 The following details the basis of estimates and assumptions that have been used when determining the expenditure pressures and funding available for the period 2017/18 to 2020/21. These estimates were included in the Efficiency Plan submission to Government.

Pension Contributions

4.5 The expenditure pressure assumed represents a contribution rate increase from 18.8% in 2016/17 to 20.0% in 2017/18 and a further 1% in each subsequent year. This is yet to be confirmed as the Greater Manchester Pension Fund (GMPF) is subject to a triennial revaluation which will determine the required level of employer contribution rates. Initial figures supplied by GMPF suggest contribution rates for 2017/18 will be in line with the above-mentioned assumption.

Pay Awards

4.6 Pay inflation is assumed to be 1% per annum for all mainstream funded employees and all employees of a wholly owned Adult Social Care trading organisation. The estimates also provide for the continuation of a locally agreed commitment to the Living Wage Foundation National Living Wage.

Inflation

4.7 Whilst the Council aims for efficient services and therefore assumes no inflation on general supplies and services, there are some areas of expenditure where there is a contractual commitment linked to inflation and this projected additional cost reflects that need. In the main, this relates to increased utility costs and inflationary rises built into service contracts such as those related to PFI schemes.

Investment Fund/Capital Financing Costs

4.8 The Council has agreed an ambitious regeneration programme funded in part by prudential borrowing. This requires revenue spending to support the borrowing costs in line with the projected timeframe for the capital investment. The forecast includes £1.682m for 2017/18 to fund anticipated borrowing costs including the revenue implications associated with funding and delivering the Council's approved capital programme. Prior to approval, additional capital expenditure is subject to a financial and risk assessment to determine the extent of any revenue budget implications. Where possible, the Council will seek to ensure new schemes or additional capital investment is self-financing in order to avoid further increasing the budget gap.

Business Plan

4.9 A funding allocation of £0.600m has been included in the budget estimates to facilitate the funding of business developments which may be identified during the budget process.

Levies

4.10 Estimates of expected levy payments within the MTFS are based upon the most up to date information provided by the Greater Manchester Waste Disposal Authority

(GMWDA), the Greater Manchester Combined Authority (GMCA) and the Environment Agency. The latest estimates are set out below:-

- GMWDA - Oldham pays a levy for waste disposal which for 2016/17 was set at £15.897m. The GMWDA has however indicated that the levy will increase over the next four years given the impact of the Private Finance Initiative (PFI) scheme around which waste disposal facilities have been financed, if there are no changes to the current operating arrangements. An estimated increase of £1.732m has been assumed for 2017/18 with further increases for each year of the MTFS rising to an additional cumulative cost of £3.600m per annum by 2019/20.
- GMCA - Oldham's Transport for Greater Manchester (TFGM) levy was set at £15.848m for 2016/17. At this stage, the MTFS allows for a 2% per annum increase in the GMCA transport levy resulting in a pressure of £0.317m in 2017/18 rising to £1.307m by 2020/21.
- Environment Agency - Oldham's levy for 2016/17 was £0.101m. The Environment Agency levy is comparatively small and given the pressure on public sector organisations to minimise cost increases and seek efficiency savings, no further increase is anticipated over the life of the MTFS.

End of Temporary Changes to Employment Terms and Conditions

4.11 As part of agreed budget reductions for 2014/15, the Council temporarily varied the employment terms and conditions of employees. These temporary conditions will cease at the beginning of the 2017/18 financial year. The financial impact is £2m per annum which has been included in the budget estimates.

Social Care – Demand Pressures

4.12 Given the national trends in adults social care pressures which have been the subject of national publicity and also the local experience of increasing demand combined with more complex caseloads, a budget pressure of £3.000m on an ongoing basis has been added to the forecast financial position. This also includes an allowance for demand pressures for children's social care services. This aims to address the in-year pressure that has been reported in the financial monitoring report at month six for 2016/17 as shown in paragraph 3.2.

Adults Social Care – Impact of National Living Wage

4.13 As detailed earlier in this report, changes to the National Living Wage announced by Central Government have resulted in a financial burden for Local Authorities particularly around Adult Social Care providers. Budget estimates take account of estimated 2017/18 increases and also the intention to move to a minimum of £9 per hour by 2020. Provision has been built into the forecasts of £2.445m in 2017/18 rising to a cumulative figure of £9.412m in 2020/21.

Social Care Pressures – Care Act 2014

4.14 The Local Government Finance Settlement included increased funding in future years for an Improved Better Care Fund to assist in the provision of new burdens associated with the 2014 Care Act. The budget estimates passport this funding to Adult Social Care to support a corresponding increase in spending. Provision has been built into the forecasts of £0.716m in 2017/18 rising to £8.150m in 2020/21. It is expected that the 2017/18 grant allocation will be notified at the same time that the Local Government Finance Settlement is issued.

Public Health Services

4.15 The Government first started to reduce Public Health Grant allocations in 2015/16. In that year, the grant was reduced by £200m across all Local Authorities with the direct impact on Oldham being a loss of £1.057m. Public Health funding for two years was announced on 11 February 2016 with a grant allocation of £17.775m for 2016/17 and £17.337m for 2017/18. The Council will top up Public Health Services to maintain services in the sum of £0.796m in 2017/18 rising to £2.114m cumulatively by 2019/20.

Coroners Service

4.16 A new and emerging pressure is the cost of the Coroners Service. The number of investigations into cause of death is increasing where individuals are subject to a Deprivation of Liberty Safeguards (DoLS) order under the Mental Health Act 2005 and an ongoing provision of £0.250m for expected costs has been built into the MTFS.

Apprenticeship Levy

4.17 An additional budget pressure for 2017/18 is the Apprenticeship Levy which is being introduced by Government as a charge to employers with a wage bill of over £3.000m. The aim of the levy is to provide funding for training opportunities for young people. The estimated cost to the Council is £0.400m on an ongoing basis. The details around the implementation of the levy are still awaited so there may be a further change to this pressure. Schools (where appropriate) will be liable for their own levy.

Revised Estimates of Resources Available to Support the Budget

4.18 The Council's revenue funding comes through a number of different sources including Council Tax, Business Rates and Central Government support. Estimates of income are explained as follows:-

Business Rates

4.19 Section 2 of the report sets out the policy landscape with regards to Business Rates reform. It is clear there is a significant amount of change on the agenda which will affect Councils and Ratepayers alike. The Government has assured Councils that Business Rates reform and revaluation will be fiscally neutral. They have also provided specific assurances to areas like Greater Manchester to ensure the region is no worse off as a result of piloting 100% rates retention.

4.20 Whilst it is hoped the growth pilot schemes from 2015/16 and 2016/17 along with the 100% rates retention pilot will ultimately generate additional business rates growth for the region, the forecasts included in this report assume no additional growth at this stage. Business rates revenue growth remains uncertain and the fiscal benefits of that growth may accrue to the Combined Authority rather than individual districts.

4.21 For budget planning purposes, revenues are simply projected to change in line with forecast changes in the business rates multiplier. Furthermore, it is assumed the Council's Business Rates 'top up' and other grants in lieu of business rates (for example for Small Business Rates Relief) will be adjusted by DCLG to ensure the impact of the 2017 revaluation and other reforms are fiscally neutral. Finally, it should be noted that the forecasts for 2020/21 have been presented on the basis of the current Local Government Finance System. Once proposals for the national roll out of 100% rates retention become clearer, it should be possible to adjust the presentation of these figures to reflect the proposed system.

Revenue Support Grant (RSG)

4.22 RSG is the largest unringfenced general fund grant that is provided by Central Government. As an unringfenced grant this underpins the provision of all services provided by the Council. RSG estimates are based upon the figures published in the 2016/17 Final Local Government Finance Settlement of 8 February 2016. The submission of the Efficiency Plan has ensured that these figures are the minimum that the Council will receive. The financial forecasts assume RSG will be phased out in full by 2020/21 following the implementation of the 100% Business Rates Retention regime outlined above.

Education Services Grant

4.23 On 21 July 2016, the Education Secretary issued a written statement on school funding arrangements 2017/18. This statement clarified arrangements for the future of the Education Services Grant. It is expected that the General Fund grant will end in September 2017 and as such the resources available have been reassessed to a 2017/18 amount of £0.972m. The Retained element of the funding is estimated at £0.620m on an ongoing basis.

4.24 The written statement also confirmed that the Retained Funding element of the grant would in future be allocated as part of Dedicated Schools Grant. Assuming agreement with Schools Forum (this matter was included in a paper considered by the Schools Forum on 29 September 2016 and will be discussed at the next meeting in January 2017), there is the ability to top slice this funding to continue to provide central education functions. Subject to confirmation, this agreement and hence the continuation of funding has been included in future year's forecasts.

Improved Better Care Fund Grant

4.25 The Government has indicated that there will be additional grant funding paid directly to the Local Authority. The MTFS assumes funding allocations are in line with those published as part of the 2016/17 Local Government Finance Settlement. Part of the allocation is intended to compensate Authorities with a low Council Tax Tax Base that cannot secure full recompense for adult social care pressures from a 2% Adult Social Care Precept.

4.26 An allocation of £0.716m for 2017/18 has been included in the MTFS increasing to £8.150m by 2019/20. It is assumed for planning purposes that the full improved Better Care Fund allocation will be required to meet additional social care pressures. The final figure will be notified in the 2017/18 Local Government Finance Settlement.

Other Grants

4.27 The Council receives other unringfenced grants from Government such as the New Homes Bonus grant and the former Independent Living Fund grant. These grants are used to underpin the general operation of the Council rather than specific services. As part of 100% Business Rates retention and associated Local Government finance reforms, the Government is also reviewing the allocation of these resources.

4.28 The financial estimates in this report are based on the grant allocations that have been published as part of the 2016/17 Local Government Finance Settlement alongside supplementary grant allocations paid by Central Government. For 2017/18 to 2020/21 funding estimates also based on Treasury assumptions covering the whole of the public sector, expert Local Government commentators' advice and local experience and knowledge. These grants are Independent Living Fund (ILF) grant, Housing Benefit and Council Tax Administration Grants and New Homes Bonus.

Council Tax Income

4.29 This is the largest single revenue stream that is used to support the Council's revenue budget. Council Tax income changes each year due to changes in the tax base (increase/decrease in chargeable Band D equivalent properties) and the Council's annual decisions on the level of the tax.

4.30 The estimated tax base (the number of Band D equivalent properties) of 54,406 Band D equivalent properties for 2016/17 is expected to increase by around 400 Band D equivalent properties per annum to 2020/21 resulting from properties being built, fewer households claiming Council Tax Reduction support and empty properties being brought back into use. Projections for future New Homes Bonus grant are also in line with these tax base projections. For 2017/18 the tax base currently assumed for planning purposes is 54,792.

4.31 The income estimates presented in this report are in line with current Council Tax policy. As such, this assumes a 2.00% Adult Social Care Precept will be levied year on year for the same period. Clearly, Council Tax to be charged each year is a matter to be decided by Budget Council.

4.32 No change has been assumed in Parish Precept income as this relies on decisions taken by the Saddleworth and Shaw and Crompton Parish Councils.

Collection Fund Surplus/Deficit

4.33 The Collection Fund is assumed to achieve a balanced position in all future years with no surplus or deficit anticipated.

Other planning assumptions

4.34 Other assumptions within the budget estimates are outlined below:

- Ringfenced grants will be used for the purpose intended. These include Public Health Grant, Housing Benefit Subsidy and Dedicated Schools Grant (for the purposes of the MTFS it is assumed that all eligible expenditure will be met from this grant and any surplus or deficit from schools will be met from their own school balances). Ringfenced grant assumptions are based on the allocations that have been notified by the funding body;
- Pensions and redundancy costs will have to be met directly from revenue funds as there will be no capitalisation opportunities;
- General Balances and reserves are managed on a risk based approach; and
- The Housing Revenue Account continues to operate within the self-financing regime for the two PFI schemes and any surplus or deficit is financed via the Housing Revenue Account Reserve.

Local Council Tax Reduction Scheme

4.35 Running parallel to the budget process but with direct links to future available funding was a review of the Local Council Tax Reduction Scheme. This review is outlined within a report elsewhere on this agenda that recommends an unchanged Council Tax Reduction scheme for 2017/18 thus having a neutral impact on the financial projections and budget position of the Council.

Revised Budget Reduction Requirement – Summary of changes since February 2016

4.36 Using the assumptions and information set out above the budget gap for 2017/18 has reduced by £0.149m from £20.464m to £20.315m after allowing for the additional impact for 2017/18 of 2016/17 budget proposals.

4.37 The impact of revisions to assumptions for the period 2017/18 to 2020/21, compared to the position reported in February 2016 is presented in the table below and may be summarised as:

Revisions to Estimates

4.38 These revisions relate to the change to the Minimum Revenue Provision Policy (MRP) as approved at the 7 September Council meeting and the rebasing of estimates taking account of more up to date information for 2017/18, with regard to pension contributions, price inflation and the expected transport levy.

Additional Budget Pressures /Resilience Issues

4.39 Recognising the continuing and increasing demand on both adults and children's social care services and being mindful of Council responsibilities, a budget pressure of £3.000m has been added to the estimates (as advised at paragraph 3.4).

4.40 The financial projections include notified reductions in Government funding for Public Health Services impacting on 2017/18 and continuing into future years. The Council is allocating mainstream resources to offset the increased grant.

Changes to Funding

4.41 Government announcements regarding the revision to the allocation of Education Services Grant has resulted in a £1.362m reduction of the expected grant level as explained at paragraph 4.23.

4.42 The estimate for Business Rates has been updated in line with Government information and Council Tax income reflects the expected tax base and Council Tax level.

Budget Gap Revisions	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Budget Gap as at 24 February 2016	**20,464**	**37,164**	**51,666**	**63,584**
Revisions to Estimates				
- Revision to MRP Policy	(2,522)	(2,312)	(2,110)	(1,915)
- Pension contributions	(812)	(2,143)	(3,467)	(4,784)
- Price Inflation	(400)	(1,000)	(1,500)	(2,000)
- Business Plan		(750)	(1,750)	(2,850)
- GMCA Transport Levy	317	640	970	1,307
Additional Budget Pressures/Resilience Issues				
- Social Care	3,000	3,000	3,000	3,000
- Public Health - offset to grant reduction	796	1,247	1,686	2,114
Changes to Funding				
- Reduced Anticipated Education Services Grant	1,362	1,700	1,576	1,182
- Activity Transferring to Dedicated Schools Grant	(362)	(620)	(620)	(620)
- Business Rates Revenues Revision	(1,233)	(2,178)	(3,233)	(3,783)
- Council Tax Tax base Increase	(125)	(353)	(675)	(1,103)
- New Homes Bonus Grant Revision	59	(152)	(129)	(80)
Revised Budget Gap	**20,544**	**34,243**	**45,414**	**54,052**
2017/18 Impact of 2016/17 Budget Reductions	(229)	(229)	(229)	(229)
Gap Remaining	**20,315**	**34,014**	**45,185**	**53,823**
Reduction in Budget Gap	*149*	*3,150*	*6,481*	*9,761*

4.43 There is still the opportunity for these figures to be revised. In addition to local decision making, more detailed funding information will be issued by Government and levying bodies. The figures will therefore be revised as the budget process progresses and as the Council's Medium Term Financial Strategy for the period 2017/18 to 2020/21 develops. An overall summary of the Council's revenue budget gap forecast for 2017/18 of £20.315m rising to £53.823m by 2020/21 is set out in the following table:-

Estimated revenue position 2017/18 to 2020/21	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Agreed Base Position	**191,143**	**191,143**	**191,143**	**191,143**
Adjustment for One Off Changes in 2016/17	(490)	(490)	(490)	(490)
Full year effect of 16/17 Policy Changes	(2,543)	(2,164)	(1,854)	(1,580)
Activity transferring to the Dedicated Schools Grant	(362)	(620)	(620)	(620)
Revised Base Position	**187,748**	**187,869**	**188,179**	**188,453**
Additional Expenditure Pressures for 2017/18 and future years				
- Pensions	662	1,331	2,007	2,690
- Pay Award	1,000	2,020	3,060	4,121
- Inflation	1,480	2,797	4,253	5,748
- Investment Fund	1,682	3,978	5,978	6,978
- Business Plan	600	1,600	2,600	3,600
- Levies – Waste	1,732	3,113	3,603	4,129
- Levies – Transport	317	640	970	1,307
- End of Change to Terms and Conditions	2,000	2,000	2,000	2,000
- Social Care Demand	3,000	3,000	3,000	3,000
- Adults Social Care - Impact of NLW	2,445	4,912	7,157	9,412
- Other Social Care Pressures - Care Act 2014	716	4,687	8,150	8,150
- Support for Public Health Services	796	1,247	1,686	2,114
- Coroners Service	250	250	250	250
- Apprentice Levy	400	400	400	400
Budget Resilience Total	17,080	31,975	45,114	53,899
Total Expenditure	**204,828**	**219,844**	**233,293**	**242,352**
Funded By:				
Government Grant				
- Business Rates Top Up	30,832	31,741	32,756	33,750
- Grants in Lieu of Business Rates	2,447	2,519	2,600	2,652
- Revenue Support Grant	30,428	23,600	16,701	11,691
- Education Services Grant	972	0	0	0
- Improved Better Care Fund Grant	716	4,687	8,150	8,150
- Independent Living Fund (ILF) Grant	2,748	2,661	2,580	2,500
- Housing Benefit Administration Grant	785	392	98	0
- Council Tax Administration Grant	297	267	241	217
- New Homes Bonus	2,641	2,552	2,529	2,480
Total Government Grant Funding	71,866	68,419	65,655	61,440
Locally Generated Income				
- Retained Business Rates	29,620	30,493	31,468	32,097
- Council Tax Income	79,195	81,405	83,703	86,096
- Adult Social Care Precept	3,108	4,789	6,558	8,422
- Parish Precepts	245	245	245	245
Total Locally Generated Income	112,168	116,932	121,974	126,860
Revised Budget Funding	**184,034**	**185,351**	**187,629**	**188,300**
Approved Use of Reserves	(250)	(250)	(250)	0
Net Gap/Budget Reduction Requirement	**20,544**	**34,243**	**45,414**	**54,052**
2017/18 Impact of 2016/17 Budget Reductions	(229)	(229)	(229)	(229)
Gap Remaining	**20,315**	**34,014**	**45,185**	**53,823**

5 Forecast Budget Gap – Risks and Uncertainties

5.1 There are a number of risks and uncertainties underpinning the MTFS forecasts and a number of forthcoming announcements that could greatly affect the level of resources that the Council receives. In particular the Provisional Local Government Finance Settlement which is due in December 2016. Whilst the submission of an Efficiency Plan secures minimum funding in relation to the Revenue Support Grant there remains uncertainty with regard to other funding streams. The Final Local Government Finance Settlement which will give formal confirmation of funding allocations is unlikely to be announced until at least January 2017.

Business Rates

5.2 The policy announcements relating to Business Rates and Local Government finance reform may have significant implications for tax revenues and the scope of service provision within the Council. Key risks and uncertainties identified include:

The precise operation of the 100% rates retention scheme

5.3 Full details of which Government grants are be replaced by rates revenue together with details as to which services will be devolved to Local Government have still to be confirmed. If those funding streams or services are subject to significant demand pressures then it could negatively impact on future financial forecasts/budget estimates. Full rates retention also potentially exposes the Council the greater fluctuations in revenue as well as greater collection and appeals risks. This has been acknowledged by the working groups developing the new system although there are as yet no firm proposals to mitigate these risks.

Revaluation and SBRR

5.4 Both 2017 revaluation and reforms to SBRR should benefit a significant number of local ratepayers; particularly small and medium sized businesses. Many businesses will pay reduced rates or no rates at all. Whilst this will help mitigate collection rate and appeal risks it does, in itself, reduce the financial incentive to invest in and encourage local economic growth.

Business Rates Pooling

5.5 The benefits of pooling as set out in paragraph 2.42 are at risk if one of the member Authorities suffers a major reduction in rates income which would ordinarily trigger a safety net payment from Central Government. If such an Authority is part of a pool then it would fall to other members of the pool to fund an individual Authority's safety net payment. The prospective members of the pool must be confident that they will not trigger a safety net payment.

2017 Revaluation Adjustment and Grants in Lieu of Business Rates

5.6 The Government has stated that Business Rates reforms will be implemented on a fiscally neutral basis. This means, for example that tariff and top up payments should be adjusted to neutralise the impact of 2017 revaluation and grants in lieu of business rates should be adjusted to take account of SBRR reforms. There is a risk however, that these adjustments and additional grant compensation could result in the misallocation of resources or resources being taken from elsewhere within Local Government spending control totals.

Business Rates Collection Rate

5.7 Some of the above-mentioned reforms ought to be beneficial from a collection rate perspective as they will mean many businesses will pay no rates or at least a reduced amount. Nonetheless, maintaining an adequate collection rate must remain a priority if the revenue estimates included in the Council's budget forecasts are to be achieved.

Business Rates Appeals Risk and Rates Avoidance Activity

5.8 Managing appeals risk and mitigating rates avoidance activity should also remain a priority if the revenue estimates included in the Council's budget forecasts are to be achieved. The 2017 revaluation process is likely to prompt additional appeal activity; particularly among ratepayers facing above-inflation increases in their bill. The Government is hopeful that the 'Check, Challenge, Appeal' reforms referred to earlier in this report will improve the processing of appeals and result in a lower level of provision being needed.

Health and Social Care Devolution

5.9 Devolution plans, particularly with regard to Health and Social Care, could impact on the forecasts included in this report if the Government combines those plans with further savings, for example by top slicing resources that are being transferred to city regions.

Other Grants

5.10 There are a number of other grant allocations that are not included in the funding certainty offered by Central Government in line with the submission of an Efficiency Plan. Some of these are published alongside the Local Government Finance Settlement however some are not published until after the budget has been set and these are often only published for one year. The financial projections take account of the Government's stated intentions to reduce unringfenced grants including the New Homes Bonus Grant and Education Services Grant. There will also be reductions in ringfenced grants including Public Health Grant. Further reductions in ringfenced grants over and above those already reflected in the budget forecasts are assumed to be contained within service spending plans.

Council Tax

5.11 The level of Council Tax determined by the Council meeting on 1 March 2017 is subject to referendum thresholds set by Government. Currently, a referendum is required if a Council Tax increase for general purposes (therefore excluding the Adult Social Care precept) over more than 2% is proposed. The referendum principles are included in a technical consultation on the 2017/18 Local Government Finance Settlement which closed on 28 October 2016. The outcomes of this consultation have not yet been released and it is assumed that there will be no change to the current arrangements.

5.12 The MTFS assumes that future changes in the tax base remain at a similar level to those experienced over recent years and that the collection rate remains constant.

5.13 Councils that choose to charge an Adult Social Care Precept are subject to scrutiny from Central Government to ensure that any additional monies raised from this precept are used to fund Adult Social Care services. The Council needs to be able to evidence that it meets this requirement or it may lose the ability to charge a precept in future years.

Demographic Pressures

5.14 On-going demographic pressures for demand led services such as Adults and Children's Social Care are likely to remain a feature of medium term spending forecasts. The MTFS assumes that the impact can be mitigated through the continued efficient management of the service, Health and Social Care Integration, the Adult Social Care Precept and the deployment of the Improved Better Care Fund.

Dedicated Schools Grant

5.15 The Government recently consulted on a series of proposals related to funding for schools and early years (see paragraphs 2.16 to 2.21). The proposals include the delegation of additional resources through the schools funding formula to meet PFI commitments and the need to request Schools Forum to agree to the retention of all other historic commitments. Should Schools Forum not agree to some or all of the historic commitments, it would increase the budget gap forecasts included in this report, unless any additional costs can be offset. Options for mitigating the impact on the budget gap could include ceasing service provision and introducing additional charges to schools.

Capital Financing

5.16 Future interest rate increases and/or a significant unplanned reduction in the level of internal balances could lead to an increase in forecast capital financing costs. In addition policy decisions linked to the level of planned capital expenditure will also affect the level of required financing costs.

Pay and Reward

5.17 Although the Government has signalled public sector pay awards will be capped at 1% per annum for the remainder of the spending review period, specific price inflation pressures remain uncertain. The forecasts provide for a further increase in the national living wage but it remains an area of significant uncertainty with regard to impact on pay and price inflation.

5.18 The outcome of the Greater Manchester Pension Fund triennial revaluation is expected imminently. The MTFS includes provision for an increase in the employer contribution rate however as this has not yet been confirmed there remains a risk around the assumed increase.

Levies

5.19 Oldham Council pays levies to the Greater Manchester Waste Disposal Authority (GMWDA) and to the Greater Manchester Combined Authority (GMCA). The MTFS includes provision for an increase in these levies however the final notification of charges for 2017/18 will not be issued until early 2017.

6 Development of Budget Reduction Proposals

6.1 The development of budget reduction proposals is currently underway. The purpose of these proposals is to deliver a balanced and risk assessed revenue budget for 2017/18.

6.2 A separate report setting out the Administration's Budget Proposals for 2017/18 and beyond is included elsewhere on the agenda. This report also discloses the impact these proposals will have on the budget reduction target should they be approved in full.

6.3 At £20.315m, the budget gap for 2017/18 is significant. If a balanced budget for 2017/18 is to be achieved, the Council must resolve to develop, approve and deliver wide ranging budget reduction proposals which will undoubtedly carry material policy, service delivery and staffing implications. In this regard it is noted that proposals that go some way towards achieving this balanced position are set out in the report on the Administrations' Budget Proposals which is presented for approval alongside this report.

7 Options/Alternatives

7.1 There are two options as follows:

- Option 1 – to accept the assumptions and resulting financial forecasts presented at Section 4 of the report.

- Option 2 – To propose amendments to the assumptions which will change the resulting budget gap and financial forecasts.

8 Preferred Option

8.1 Option 1 is the preferred option. Assumptions are based on objective research and the latest available information. Changes to those assumptions and resulting forecasts that are not evidence based will impact on the robustness of the estimates and the 'Section 25' Risk Assessment of the Budget to be carried out by the Director of Finance.

9 Consultation

9.1 The Medium Term Financial Strategy 2017/18 to 2020/21 – Policy Landscape and Forecast Budget Gap Update was presented to and noted by the Overview and Scrutiny Performance and Value for Money Select Committee on 10 November 2016 and was approved by Cabinet at its meeting of 5 December 2016. Public consultation on specific budget proposals concluded on 29 November 2016. A summary of the findings from the consultation is included within the Administration's Budget Proposals report included elsewhere on the agenda.

10 Financial Implications

10.1 Financial Implications are dealt with in full within the detail of the report.

11 Legal Services Comments

11.1 Legal issues are addressed in the body of the report. The Council has a legal obligation to pass a resolution to agree its budget and Council Tax resolutions by 11 March 2017.

(Colin Brittain)

12 Co-operative Agenda

12.1 The revenue budget projections have been prepared so that they embrace the Council's cooperative agenda with resources being directed so that the aims, objectives and cooperative ethos of the Council are enhanced.

13 Human Resources Comments

13.1 It is clear given the numerous external influences, Government policy direction and general pressures over the MTFS period that the Council will continue to need to respond flexibly to change. Any such change which directly or indirectly impacts on the People Strategy, employees or their employment terms in this and future years will be supported by People Services considered and dealt with in accordance with the Council's practices, policies and procedures and any statutory requirements in place at that time. This will include proper and meaningful engagement with Trades Unions and staff.

(Sally Blackman)

14 Risk Assessments

14.1 There are a wide range of issues which could impact on the MTFS and projections. A regular review of projections will ensure that any key changes are highlighted immediately. The key risks and uncertainties surrounding the financial forecasts presented in this report are detailed in Section 5.

15 IT Implications

15.1 There are no IT implications arising directly from this report. However, any impacts on IT arising from specific budget proposals are dealt with in the report covering the Administration's Budget Proposals (elsewhere on the agenda).

16 Property Implications

16.1 There are no property implications arising directly from this report. However, any impacts related to property/asset management arising from specific budget proposals are dealt with in the report covering the Administration's Budget Proposals (elsewhere on the agenda).

17 Procurement Implications

17.1 There are no procurement implications arising directly from this report. However, any impacts related to the procurement of goods and services arising from specific budget proposals are dealt with in the report covering the Administration's Budget Proposals (elsewhere on the agenda). Specific procurement implications will be addressed in full liaison with procurement and in compliance with all necessary Council and statutory requirements.

18 Environmental and Health & Safety Implications

18.1 There are no environmental and health and safety implications arising directly from this report. However, any impacts arising from specific budget proposals are dealt with in the report covering the Administration's Budget Proposals (elsewhere on the agenda).

19 Equality, community cohesion and crime implications

19.1 There is a positive duty on all public bodies, including Councils, to promote race, gender and disability equality. The Council meets the requirements.

20 Equality Impact Assessment Completed?

20.1 There are no equalities implications arising directly from this report. However, equality impact assessments arising from specific budget proposals are included in the report covering the Administration's Budget Proposals (elsewhere on the agenda).

21 Key Decision

21.1 Yes

22 Key Decision Reference

22.1 CFHR-25-16

23 Background Papers

23.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref:	Oldham Council Efficiency Plan submitted to Government on 29 September 2016
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