

CALDERDALE MBC

5

WARDS AFFECTED: ALL

CABINET

9th SEPTEMBER 2013

MEDIUM TERM FINANCIAL STRATEGY 2014/15 TO 2016/17

REPORT OF THE HEAD OF FINANCE

1. Reason for Report

1.1 The reasons for this report are to:

- (i) Review and update the Medium Term Financial Strategy (MTFS) in light of the latest information.
- (ii) Inform members of issues identified relevant to the update of the MTFS and,
- (iii) Note the proposed approach to the budget process for 2014/15 to 2016/17

2. Need for a Decision

2.1 To complete the annual update of the Council's Medium Term Financial Strategy and provide a framework for Members to develop budget proposals for 2014/15 and beyond.

3. Recommendations

3.1 That the appended Medium Term Financial Strategy be approved for recommendation to Council.

3.2 That draft budget proposals are brought forward by Cabinet for consultation in accordance with the approach outlined in the report.

4. Introduction and Overview of the MTFS and Forecasts

- 4.1 The Medium Term Financial Strategy (MTFS) is a key element within the Council's overall strategic planning framework. The Strategy takes a three-year perspective and sets a framework for how budget pressures will be prioritised within the best estimates of available capital and revenue resources.
- 4.2 The MTFS includes a summary of the overall planning framework including the latest statement of priorities so that the Council is 'Building Ambition for Calderdale'. The MTFS has been re-focussed this year but is still similar in structure to that used last year extended to cover a new third year (i.e. 2016/17) and updated to reflect current issues.
- 4.3 The Council has set itself ambitious goals across a wide spectrum of services as can be seen in the policy section of the attached strategy. The Council will have already found savings of £66m by 2014/15 compared to 2010. The base forecast in the MTFS shows that further savings of £3.2m are expected to be required next year with additional savings of £13.2m being likely to be needed in 2015/16 rising to £23.9m by 2016/17. Taking into account the Council's reduced spending since 2010 we expect to be making savings of £96m per year by the end of the next three year period.
- 4.4 It is usual for the MTFS to be framed in the context of some uncertainty but there is more uncertainty than ever this year given the lack of a 3 year settlement and major policy changes occurring at a national level (e.g. changes to local authority funding, pooling with the NHS etc).
- 4.5 Therefore, in addition to the Council's base case scenario detailed above, best and worst case assumptions have also been modelled so that the upside and downside risks to the Council's strategy can be seen (although it is conceivable that the position could eventually turn out to be outside even these scenarios given the level of uncertainty).

5 Consultation

- 5.1 The MTFS assumes that at the moment the Council wishes to continue the improvements to its procedures for consultation and that the information to support consultation will as last year be provided in four phases:
- Presentation of Medium Term Financial Strategy (September)
 - Resource Prioritisation and Consultation (October – December)
 - Presentation of Draft Budget proposals for consultation (January)
 - Presentation of the Final Budget to Budget Council (February)
- 5.2 This report and the MTFS therefore represent the first of four main stages in setting the Council's final budget.
- 5.3 Use of Resources Scrutiny Panel considered and noted the main assumptions made within the MTFS at their meeting on 21 August 2013

6. Corporate and Financial Implications

- 6.1 Although this report does not have any direct financial implications, the base forecast in the MTFS shows that further savings are expected to be required in each of the 3 years.
- 6.2 The Council needs to commence the budget process for 2014/15 bearing in mind that the savings are expected to increase as the period of the MTFS progresses.

7. Equality and Diversity

- 7.1 The equality and diversity implications of the budget proposals arising from the MTFS will need to be considered. One of the guiding principles of the budget process is, in fact, to identify the impact of our decisions on the economy, environment and equality and fairness for people.

8. Conclusion

- 8.1 The Council has developed the MTFS as the cornerstone of the budget process and it has been instrumental in guiding this process. The scale of the reductions in spending required over the period of the plan is significantly higher than in previous years. The budget process will therefore have to reflect the fact that the Council will need to be radical in its challenge of existing priorities and make some tough decisions in order to meet the financial challenge.

Reference: ACC/NB/MTFSreport
Report No: Medium Term Strategy 13/14 to 15/16
Date: 16th August 2013

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CALDERDALE MBC

MEDIUM TERM FINANCIAL STRATEGY

2014/15 TO 2016/17

CONTENTS

	Pages
Section 1 – Introduction	2
Section 2 – The Policy Framework and Budget Process	3 - 6
Section 3 – The Capital Budget Forecast	7 - 8
Section 4 – The Revenue Budget Forecast (Incl. Balances)	9 - 16
Section 5 – Risk and Sensitivity Analysis	17 -18
Section 6 – Summary and Conclusions	19

Section 1 Introduction

The Medium Term Financial Strategy (MTFS) is a key element within the Council's strategic planning framework. The Strategy takes a three year perspective and sets the overarching forecasts to inform how budgets will be prioritised within the best estimates of available capital and revenue resources. A continuous review of Value for Money is implicit in order to ensure that budgets can be maximised and allocated to meet community needs. Given the reductions in public spending required over the next few years this prioritisation will be particularly important.

This document outlines how revenue and capital budgets will be allocated to priorities set out in the Council's corporate strategies and plans. This is prepared in the context of significantly constrained resource availability and clear community and national expectations regarding affordable council tax levels.

Although the outcome of last year's Local Government Finance Settlement and this year's Spending Review is now known, at the time of publication of this MTFS, the resources specifically allocated to the Council in future years are still uncertain. Prudent assumptions have therefore been made within this document in respect of the anticipated levels of funding over the next three years. The strategy has also been modelled to provide alternative forecasts should any of the assumptions vary to those which have been estimated.

Along with the need to plan for further efficiencies and reductions in spending this updated MTFS identifies additional provision for the following priority areas and pressures:-

- providing for the additional cost of landfill, NI contributions and other inflationary pressures
- social care needs to reflect changes in client numbers, in particular for increasing numbers of adults with learning difficulties
- Regional Transport Fund
- other budget pressures and previous savings targets

The MTFS is the first of four phases in the process for setting the Council's budget:-

1. Preparation of the MTFS (July to September 2013)
2. Confirmation of Resource Prioritisation and necessary consultation (October – December 2013)
3. Preparation and presentation of the consultation budget (January 2014)
4. Presentation of final budget proposals to Budget Council (24th February 2014)

Section 2 The Policy Framework and Budget Process

The Policy Framework

Much has been achieved against the targets set by the previous administration's "Moving Forward in Challenging Times" document and some of this work will continue. Cabinet, however, now wishes to re-shape the Council's priorities to reflect the most up-to-date understanding of Calderdale's needs and aspirations and to provide the focus for action and performance management over the next twelve months.

The Council will continue to share the Calderdale partnership vision for wellbeing (as endorsed in the Joint Wellbeing Strategy) where *everyone matters* and

- ✓ All our residents have good health
- ✓ Our local economy is balanced and dynamic
- ✓ Our children and young people are ready for learning and ready for life
- ✓ Fewer of our children under the age of 5 live in, or are born into, poverty
- ✓ Our older people have fulfilling and independent lives
- ✓ Everyone has a sense of pride and belonging based on mutual respect

The context in which this vision stands is continually changing. There is accelerating need for the public sector to reduce expenditure and demonstrate efficiency and value for money in new ways, a new imperative for the Council to work with business in driving economic growth, and a clearer recognition of the need to promote Calderdale's interests in regional collaboration. For communities in Calderdale, public health outcomes, financial inclusion and local empowerment remain both challenging for all and often unequal for many.

Cabinet expects that the Council will lead this vision not by simply responding to challenge but by actively promoting ambition and aspiration for all; citizens, businesses and the Council itself. Such ambition, whether for the life chances of children, the growth of businesses or the success of town centres, will be a key driver for the Council and ensure it plays a strong role both in Calderdale itself and within regional structures and joint working.

Accordingly, Cabinet has agreed priorities for the Council unified by the theme of ***Building Ambition for Calderdale***.

Building Ambition for Calderdale sets out six priorities:-

- **Growth:** driving economic development and enterprise
- **Ambition:** raising aspiration and achievement for all our residents
- **Resilience:** supporting personal, community and environmental resilience
- **Sustainability:** managing demand and investing for the future
- **Efficiency:** delivering efficiency and effectiveness in public services
- **Fairness:** reducing inequalities and tackling disadvantage

The detailed action undertaken in support of these priorities will be built into the annual Corporate Plan, Directorate/Service Plans, business/team plans and personal development planning processes underpinning the framework for policy and performance management.

A significant number of changes in the national agenda for local authorities have been introduced over the last few years such as the localisation of Council Tax benefit, Business Rates Retention, the transfer of Public Health and the on-going transfer of schools to academy status.

Section 4 of the MTFS attempts to interpret the potential financial implications for Calderdale of some of the key policies already introduced along with upcoming ones such as referendum limits and Housing Benefit transferring to the DWP from Councils.

The Budget Process Itself

Given the expected reductions in Government grants that the public sector will experience over the life of this Parliament and potentially beyond, comprehensive prioritisation of all expenditure is required to be undertaken to ensure that the Council is directing its scarce resources to priorities highlighted above. A set of principles have been developed to help with this process.

Budget principles

The overriding budget principle will be that the Council will prioritise the available resources towards delivering its vision in Building Ambition for Calderdale. To achieve this, the Council will review its existing service provision and budgets and how they contribute to the six priorities by considering:

- Do individuals, the community and businesses share our ambition for the service – is this a service we should be providing or should be providing in a better way? **(Ambition)**
- Could the service be delivered in a different or more efficient and effective way, or by working in partnership with other organisations and agencies? **(Efficiency)**
- Are there ways in which greater personal and community independence can be encouraged so that individual and collective responsibility is taken for the delivery of services – could the service be delivered by the community? **(Resilience)**
- Should resources be evenly distributed or should they be targeted at tackling inequalities or disadvantage? **(Fairness)**
- Are there opportunities for investment or intervention at an early stage which will help manage demand, facilitate change and achieve savings over the longer term? **(Sustainability)**
- Can the service be delivered by supporting local businesses or promoting local economic growth which will in turn maximise income to the Council and create employment opportunities? **(Growth)**

Budget review groups

Following on from the output of the initial directorate reviews, Member-led budget review groups will be appraised of the overall financial position so that budget proposals can be developed. Previously these consisted of five cross-party review groups based on the directorates of Children & Young People, Adults Health & Social Care, Economy & Environment, Communities and Chief Executives/Cross-council. The budget process and the potential use of budget review groups still need to be agreed for 2014/15.

Consultation

The Council wants to make sure that the tough decisions it has to make on future budgets and service provision are made with a good understanding of what is important to local people by engaging with local communities.

The fundamental principle is to provide a wide range of opportunities for local people to give their views and to make it as easy as possible to contribute. Where decisions

on resourcing need to be made, appropriate consultation will be arranged so that views can be sought.

As in previous years the Cabinet will issue a Consultation budget in January 2014 which will form the starting point for discussions at Council on 24th February when the budget and council tax will be set for 2014/15.

Budget Timetable

The key timelines for the budget process are set out below:-

Date	Milestone
9 th September 2013	Cabinet considers the MTFS
26 th September 2013	Council approval of the MTFS
Oct/Nov 2013	Budget proposals brought forward for Member consideration/prioritisation
December 2013	Local Government Finance Settlement is announced including detailed grant allocations for local authorities
Mid January 2014	Consultation budget agreed by Cabinet
Mid February 2014	End of consultation period and political groups prepare their budget proposals
24 th February 2014	Budget Council to agree budget and council tax for 2014/15 and indicative figures for the two subsequent years

Section 3 The Capital Budget Forecast

Background

Capital expenditure relates to spending on assets which are to be used by the Council over the long term. This includes the buying of equipment and the purchase, construction or improvement of land and buildings.

The Council's capital strategy is to maximise the use of resources, to provide a clear framework for decisions relating to capital expenditure and to establish a corporate approach to generating capital resources.

The current programme includes provision for the Council's major projects including the regeneration of the Piece Hall, the new Halifax Central Library and the Town Centre Office Strategy. These key projects alone will result in the Council investing over £40m in the town centre over the next 3 years with the economic benefits of this investment continuing far into the future.

Forecast Expenditure

It is currently expected that over the 4 year period to the end of 2016/17 the Council will be spending around £116m on progressing schemes as follows:-

- Major annual programmes of work funded by specific Government allocations, or where Members have chosen to "passport" resources for example:-
 - Schools (£37m)
 - Housing (£7m)
 - Roads (£20m)
- Other rolling programmes of improvements, e.g. Council buildings, play areas and car parks (£4m)
- One-off schemes for example:
 - Piece Hall (£18m)
 - Town Centre Office Strategy (£12m)
 - Halifax Central Library (£9m)
 - Customer First (£2m)
 - Regeneration initiatives (£2m)
 - Cromwell Bottom (£1m)
 - Flood Prevention (£1m)
 - Other Schemes (£3m)

Capital Resources

The main elements of capital financing are: -

- 1) Government-funded Grants
- 2) Unsupported (Prudential) Borrowing
- 3) Capital Receipts
- 4) Alternative sources of finance including reserves

The largest proportion of Council capital spend is financed by Central Government grants. Although most of this is now un-ringfenced, Council policy is still to passport this to specific work programmes. Virtually all this funding is therefore directed towards school, road and housing schemes as can be seen above. All other schemes rely principally on other external support, prudential borrowing or the pool of capital receipts (funding raised by the sale of Council assets).

The Government no longer provides supported borrowing (i.e. where loan costs are paid to the Council through RSG) for new schemes. However, the Council has the power to supplement funding through prudential borrowing where it is proved to be sustainable via compensatory savings, ideally backed by a valid business case.

When prudential borrowing is carried out the cost of this is charged to the revenue account as principal and interest. The capital programme includes £22m of expenditure which will be funded by prudential borrowing. The annual cost of servicing this borrowing is £1.8m and this has been budgeted for in full as part of the MTFs.

The Council also works in partnership to maximise value for money and return on capital, examples of this are working with Heritage Lottery Fund (HLF), Education Funding Agency, Skills Funding Agency, NHS, West Yorkshire Local Transport Group (WYITA) and Together Housing. On-going development with partners to provide a joined up service to the community is well established in Calderdale.

The timing and size of specific capital receipts is fairly uncertain but it is currently anticipated that, excluding any receipts from income earning assets where the policy is to repay debt to compensate for the loss of income, around a further £5.1m of capital resources will become available in the medium term which includes the Northgate House site. The £5.1m will not only cover the existing deficit of £2.2m, but also will make available £2.9m of resources to fund new schemes. The Council will continue to identify where assets can be released to provide both capital and revenue resources for re-investment.

Overall Approved Capital Financial Forecast

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Directorate Spend:-					
Communities	2.4	11.2	6.3	0	19.9
Adults Health & Social Care	0.7	0.3	0	0	1.0
Economy & Environment	19.3	16.7	13.3	8.8	58.1
Children and Young Peoples	6.7	14.6	8.4	7.2	36.9
Total Expenditure	29.1	42.8	28.0	16.0	115.9
Financed by:-					
Grants and Contributions	15.5	25.3	16.3	12.9	70.0
Revenue Funding & Reserves	4.2	1.2	0.2	0	5.6
Ring fenced/Prudential Borrowing	4.3	12.3	5.6	0.1	22.4
Use of Pooled Resources	15.7	0	0	0	15.7
Total Capital Finance Available	39.7	38.8	22.1	13.0	113.7
Potential Additional Capital Receipts	1.7	0.4	3.0	0	5.1
Surplus (+) /Deficit (-)					2.9

Section 4 The Revenue Budget Forecast

Introduction

The main focus of this document is the revenue budget as it involves the majority of the Council's expenditure and provides its main sources of income. Revenue expenditure is the day to day spending of the Council which is necessary to provide its services to the public. These running costs include employee salaries, premises costs such as utilities & rates, supplies and services etc. and are financed from a number of sources the key ones being:-

- 1) General Government Revenue Support/Top-up Grant
- 2) Non-Domestic Rates
- 3) Council Tax
- 4) Specific Government Grants
- 5) Fees and Charges
- 6) Partnership Funding (e.g. NHS)

As can be seen later in this document, some of these funding sources are outside the direct control of the Council and some are inside its control. A number of assumptions have therefore been made which will be reviewed in future versions of the MTFS as and when more information is available.

Background

Spending Review – Autumn 2010

The outcome of the Government's spending review was published on Wednesday 20th October 2010. Although this has now been superseded by other reviews and announcement it set the scene for the direction of travel for the Government's national spending plans for this Parliament and potentially beyond.

Latest Local Government Finance Settlement December 2012

The Secretary of State published the last Local Government Finance Settlement on the 4th of February 2013 which included detailed proposals of government grants for individual Local Authorities. The settlement covered two years (2013/14 and 2014/15) as a national spending review was to be undertaken in the first half of 2013 to set departmental spending limits for 2015/16.

Budget Council February 2013

At the last Budget Council, new savings of £3.9m, £9.5m and £15.4m for 2013/14, 2014/15 and 2015/16 respectively were approved. These were on top of existing savings agreed in previous budget rounds, such that the total savings already required in 2014/15 are really around £66m. In a similar manner at Budget Council, additional budget was provided to Directorates mainly to improve children's care services and support the local economy.

Spending Review June 2013

The Government released its spending review on the 26th June 2013. This showed, in broad terms, how much the Government intends to spend on its Departments/policy areas in 2015/16. The Departmental Expenditure Limit for local

government will reduce by 10% in real terms (or 8.2% in cash terms) between 2014/15 and 2015/16.

Further detailed policy decisions were also released the most significant ones for Local Government being:-

- Additional grant will be made available to support a council tax freeze in 2014/15 and 2015/16 based on the equivalent of a 1% council tax increase.
- Council tax increases in excess of 2% will require a local referendum in each of those years
- A pooled budget of £3.8bn will be created between local authorities and the NHS in 2015/16 comprising the existing £1bn NHS funding for social care, an additional £2bn NHS funding and £800m existing funding for carers and people leaving hospital.

Although there was some detail in the spending review, there is insufficient information to be fully confident about any forecasts made as Government plans change. The MTFs has also been extended beyond the spending review period with a continuation of the levels of cuts being assumed for 2016/17.

Spending Review Consultation

On the 26th July DCLG released further details of Local Government expected grant funding levels following the June spending review. Although this re-iterates the expected 10% real terms cut, it has now emerged that £1 billion has been taken outside of the main business rates retention system so that the cut in authorities' basic allocations will be even more severe (nearer 15%).

The top-sliced £1bn will fund Government priorities in a number of areas such as Social Care New Burdens (Dilnot) and the Independent Living Fund as well as additional 'holdbacks' for safety nets, New Homes Bonus and other as yet unnamed allocations. It is unclear at this time whether the Council will receive any of this funding, and, if it does, whether it will come with conditions or additional costs. For the purposes of this MTFs therefore it has been assumed that any additional funding will require equivalent expenditure.

Local Government Finance Settlement December 2013/January 2014

It is currently assumed that this year follows the pattern of previous years in that the Government will publish its provisional Local Government Finance Settlement around late November/December although rumours have suggested that it may even be after Christmas this year. It has now been indicated that it will cover 2014/15 and 2015/16 to take us to the end of the Spending Review period.

General Key Assumptions and Policy Decisions in this MTFS

As in earlier versions of the MTFS key general assumptions of changes in income and expenditure from the previous year have been built in to the forecast. For this year's MTFS these are as follows:-

Assumption	2014/15	2015/16	2016/17
<u>Income Assumptions</u>			
Inflation on top-up grant/NNDR	+2.8%	+2.8%	+2%
Council Tax	+2%	+2%	+2%
Fees and Charges	+2%	+2%	+2%
<u>Expenditure Assumptions</u>			
Budgeted Pay Rise	+1%	+1%	+2%
Budgeted Price Increases	0%	0%	+2%
Contract Prices	2.5%	2.5%	2.5%

The main MTFS forecast found on page 15 is made up of two sections, the top half being the income forecast and the bottom half the expenditure forecast. The assumptions and rationale behind the figures are as follows:-

Funding Forecast

Government Formula Grants

It is very unusual for Government to release indicative Revenue Support Grant figures for individual authorities prior to their formal release as part of the Local Government Finance Settlement late in the year. Although indicative at this point they have been provided by DCLG and therefore offer a better forecast than would normally be available for the MTFS. 2016/17 RSG figures are not available though so a continuation of the same magnitude of cuts experienced so far has been assumed going forwards.

Top-up Grant

This has been assumed to be in line with Government indications, again as outlined in the recently released Spending Review consultation. Top-up grant increases with inflation which Government is estimating to be in the region of 2.8% over the next two years. For the purposes of our forecast we are assuming 2% in 2016/17 as this is the Government's medium term inflation target.

Education Services Grant (ESG)

The Education Services Grant is payable to local authorities to reflect the core functions they provide for schools. The MTFS assumes that all secondary and 50% of primary schools will have transferred to academy status by 2016/17. Government has also reduced ESG on top of these transfers by £200m nationally (20%) from 2015/16 onwards and this has again been reflected in the forecast. It is likely that this forecast will change as further updates become available.

New Homes Bonus (NHB)

Government is proposing that around 35% of NHB funding will in future be transferred to Local Enterprise Partnerships (Leeds City Region in our case) for their priorities. If growth in Calderdale's NHB continued at the same rate as previously enjoyed then the additional NHB by 2015/16 would roughly equate to our anticipated

loss caused by the LEP top-slice. For this reason the MTFs assumes that NHB remains flat for the 3 year period.

Public Health Grant/NHS Funding/Other Specific Grants

The MTFs assumes funding for these mainly ring-fenced areas being flat over the period rather than facing cuts like the majority of Government funding. There is a possibility of further funding becoming available for these although it is anticipated that this will be matched with additional costs.

As announced in the Spending Review a pooled budget of £3.8bn will be created between local authorities and the NHS in 2015/16 comprising the existing £1bn NHS funding for social care, an additional £2bn NHS funding and £800m existing funding for carers and people leaving hospital. It is not clear how this has been treated in the Departmental Expenditure Limits which will affect the reduction in grant funding to local authorities. Until more details are available no account of the impact of this has been taken account of in the budget forecast.

Local Share Retained Rates

As National Non-domestic Rates rise in line with RPI inflation similar assumptions have been made on these to top-up grant. No additional growth (or reductions) in rates has been assumed at this stage on top of inflationary increases but should any significant new developments be brought forward in Calderdale these will be reflected in future forecasts. Conversely, however, any movement in businesses away from Calderdale would impact negatively on the Council's income.

Council Tax Increases

The MTFs forecast is based on Council Tax increases of 2% in each of the 3 years and this will be subject to any referendum limit imposed by Central Government. Government have though confirmed in the recent spending review that Councils will be allowed to increase Council Tax by 2% in 2014/15 and 2015/16 without being subject to a referendum. Details are still to be released though on the new requirement for referendum limits being placed on levying authorities such as the WYITA and whether there will be any adjustment required either to their or Councils' limits as a result of excessive increases in these levies in previous years.

Expenditure Forecast

The starting point of the expenditure forecast is the budget that was agreed at Budget Council in February as adjusted for subsequent approvals by Members. This has been adjusted to take account of the deferral of a car parking saving of £405k from 2014/15 to 2015/16; the re-phasing of the saving on nursery care in children's centres in line with the report of the Early Years Commission; and a reduction to £280k of the saving from the transformation review of neighbourhood and community services.

Inflation – Pay and Prices

Inflation continues to be above the Government's target of 2% (currently standing at 3.3%) and this is having a generally negative effect on the Council's finances. However, consumer price rises do not necessarily affect the type of expenditure incurred by a Council and pay has been frozen in recent years (and it is anticipated that pay rises will be limited to perhaps 1% going forwards).

An allowance has already been made within the budget for pay and price inflation for the next 3 years but this has not yet been allocated out to Directorates. The approach of effectively top-slicing budgets by not allocating this budget out (as done in previous years) could potentially be replicated in future years to produce a saving. The inflation target on fees for Council services is still in place meaning that the budget assumes that overall prices charged such as Parking and Sports will rise by 2% every year (on top of any other specific savings targets given to income generating areas).

In 2016/17 the amount required to finance a rise in inflation and pay award equivalent to 2% in that year has been estimated at £3.9m. This has been included in this MTFS, but, again, could be available to reduce the amount of specific savings required to be found in the future. In a similar way, the allocation of £0.4m within the MTFS to cover higher levels of landfill tax, may not ultimately be required and so could reasonably be offered up as a saving too.

Use of balances and reserves

The MTFS assumes contributions to/from balances each year to support the budget in line with the decisions made at Budget Council in 2013. No contributions are currently assumed for 2016/17.

On-going Budget Growth/Pressures

The MTFS normally includes a general £0.5m allowance for demographic growth in Adults Health and Social Care clients. Members removed this automatic increase for the years 2013/14, 2014/15 and 2015/16 on the assumption that the directorate could absorb the budget pressures through increased demand management. Extending this approach into 2016/17 could be considered during the budget process to reduce overall savings targets but the MTFS assumes the growth remains at the moment.

At the last four Budget Councils significant savings targets were approved as part of Calderdale's necessary transformation to reflect the new economic realities of a changing funding regime. Some of these individual planned savings are more challenging than others.

It is becoming increasingly apparent that some previously agreed savings are now unlikely to be made. As time goes on and more work is done to achieve them it is hoped that these risks could reduce with compensatory savings being identified if necessary. However the position could quite equally deteriorate so in recognition of these pressures provision of £1.0million, £1.5million and £1.7 million respectively has been made in each year of the MTFS to deal with these.

As previously mentioned, the Council is likely to need to consider various opportunities for regional development through the Leeds City Region and the City Deal for example. The last MTFS provided for an estimated contribution of £300k in 2013/14 rising to £1.0m by 2015/16. This MTFS allows for an additional contribution to the Regional Transport Fund of £0.5m from 2016/17 onwards.

Other Budget Pressures and Issues

The Council is experiencing a number of existing budget pressures in order to maintain its services on top of its commitment to its local priorities. There are also

significant changes in the national agenda for local authorities expected over the next few years. The section below attempts to interpret the potential financial implications for Calderdale.

Fallout of Employers NI Contracted-out Rate

As announced in the March 2013 Budget, Government are creating a single tier state pension. What this means is that from 2016/17, employers (and employees) currently paying a lower level of national insurance due to them being in an occupational pension scheme, will be paying the same as everyone else. For the Council it is estimated this will cost us £1.6m per annum.

Energy Price Increases

Analysts are predicting significant increases in energy prices as a result of switching the UK from fossil fuel to low carbon generation. It is estimated that we may experience price increases of up to 40% due to this in 2015.

Benefits Changes

Discussions are on-going with the DWP on how the transfer of benefits administration from the Council will be managed. It is currently neither known what costs/work the Council will retain nor what the grant that will be paid to carry out this residual work will be. The last Local Government Finance Settlement showed the funding for benefits administration dropping out in 2014/15 and this is reflected in our agreed budget. The budget also assumed that all of the costs would be saved giving no overall impact due to the changes.

For 2014/15 the DWP have given assurances that they will maintain the level of funding required to manage the full administration of Housing Benefit. The position leading up to the full roll out of Universal Credit by 2017 is less certain and provision has been made in the MTFS for a net cost of £800k to the Council in 2015/16 and 2016/17.

Issues Positively Benefiting the MTFS

The issues above will be partially offset by savings on the contingency provision for Cromwell Bottom and in the Treasury Management budget. The £200k revenue budget set aside to pay for borrowing costs relating to work on the ex-landfill site at Cromwell Bottom is no longer required as it can now be funded through the reserve that has already been built up. There is also expected to be a £500k full year saving on Treasury management following our latest debt restructure.

All the above assumptions form the basis of the three year forecast of savings that the Council will have to make in order to deliver a balanced budget. The revenue forecast for the next 3 years below is the base case. These assumptions are consistent with what is known at this present time as the most likely course of events taking account of the understanding of professional organisations (e.g. CIPFA, Sigoma), political commentators and other public sector bodies.

The sensitivity analysis and risk assessment which can be found in a later chapter of this document models the forecast under a different set of assumptions to show what could be described as worst case and best case scenarios. The constantly changing national agenda, however, means that the funding position is particularly volatile.

The savings requirements highlighted in this year's MTFS and detailed in the table below are **over and above any budget decisions already agreed by the Council.**

3 YEAR GROSS BUDGET FORECAST 2014/15 TO 2016/17		2014/15	2015/16	2016/17
		£m	£m	£m
Funding Forecast				
Government Formula Grants				
Revenue Support Grant		44.6	31.4	26.4
Top-up Grant		9.6	9.8	10.0
Retained local share and RSG		54.2	41.2	36.4
Other Grants				
Education Services Grant		1.8	1.3	0.8
New Homes Bonus		2.4	2.4	2.4
Public Health Grant		10.7	10.7	10.7
NHS Funding Transfer Social Care & Health Benefits		3.4	3.2	3.2
Other Specific Grants (mainly Education related e.g. PFI)		9.9	9.8	9.8
Estimated Council Tax Income		28.2	27.4	26.9
Local Raised Taxes				
Local Share Retained Rates		28.5	29.3	29.9
Council Tax		73.8	75.3	76.8
Estimated other income		102.3	104.6	106.7
Other Income				
Contributions (re partnership working e.g. NHS, Schools etc.)		15.9	15.9	16.0
Fees and Charges (including 2% inflationary increase pa)		42.0	43.2	44.1
Estimated other income		57.9	59.1	60.1
Forecast Income		242.6	232.3	230.1
Expenditure Forecast				
Adjusted Gross Service Controlled Budget		207.0	201.3	201.1
Gross Central Controlled Budget		38.8	42.6	42.6
Contribution To (+) / From(-) Balances		-0.3	-1.6	0.0
Budget as agreed at Budget Council		245.5	242.3	243.7
Pay and Prices				
General Provision for Pay and Prices Inflation				3.9
Increase in landfill tax £8 per tonne				0.4
		0.0	0.0	4.3
Other Growth/Realignment				
Budget and Demographics Pressures		1.0	1.5	2.2
Potential contribution to Regional Transport Fund				0.5
		1.0	1.5	2.7
Other Issues				
Fallout of Employers NI contracted out rate				1.6
Exceptional Energy Increase - Tariff Change			1.6	1.6
Cromwell Bottom contingency no longer required		-0.2	-0.2	-0.2
50% of Housing Benefit Admin expenditure not saved			0.8	0.8
Reduction in Debt Costs		-0.5	-0.5	-0.5
		-0.7	1.7	3.3
Forecast Total Expenditure		245.8	245.5	254.0
Summary				
Forecast of Funding Available		-242.6	-232.3	-230.1
Forecast of Net Expenditure		245.8	245.5	254.0
Forecast Surplus(-) / Deficit(+)		3.2	13.2	23.9

The following graph shows both where the Council has come from in terms of savings since the current period of national austerity began in 2010 as well as the new budget reductions we anticipate will be required as a result of this MTFS (shown as light blue). Although these are high and are after significant efficiencies have already been achieved they are not unprecedented and the Council is confident it can rise to the challenge it faces.



Revenue Balances Forecast

General balances are kept to help the Council manage cost, income and other fluctuations by providing short term funding to support the MTFS.

The following table shows the level of balances that are currently expected to be available at each year end over the period of the MTFS. The contributions to and from balances included in the table have already been approved by Members. It is also assumed that any forecast overspends in the current financial year can be absorbed by directorates.

	£m
Estimated Available General Fund Revenue Balances as at 31/03/14	8.2
Assumed Contribution from Balances in 2014/15	-0.3
Estimated Available General Fund Revenue Balances as at 31/03/15	7.9
Assumed Contribution from Balances in 2015/16	-1.6
Estimated Available General Fund Revenue Balances as at 31/03/16	6.3
Assumed Contribution to/from Balances in 2016/17	0.0
Estimated Available General Fund Revenue Balances as at 31/03/17	6.3

As can be seen, balances would remain above the minimum requirement of £5m throughout the 3 years of this MTFS. If, however, balances were used to further support the Council's budget (i.e. over and above those currently approved) this would have a direct impact on the above estimate. It should be noted balances are one-off reserves and use of them for anything other than for short term issues would not be sustainable. Given the extent of the savings/expenditure reductions which are required over the planning period, the additional balances could be used on a one-off basis to support services to achieve their reductions.

Section 5 Risk and Sensitivity Analysis

Risk Assessment

The council has a very strong risk management framework in place. The core of this framework is set out in the corporate risk management strategy and corporate risk register. In addition to the corporate register, each directorate has its own operational risk register which integrates with the relevant directorate performance management strategy, improvement plans and budgets. Some of the risk categories remain broadly the same as in 2013:-

- The lack of a three year government settlement makes medium term financial planning less robust.
- EU Landfill Directive/Other Environmental Regulations
- Insurance and Other Claims.
- Impact of National and International uncertainties on the Local Economy

In addition to the above more recent developments have given rise to further risks:-

- Schools leaving the Council to become academies
- Council Tax benefit responsibility coming to Councils
- Transfer of responsibility for new Housing Benefits to DWP from 2013
- Non-achievement of previously agreed savings targets
- Continuing demographic and other pressures on social care

In summary, the Council works closely with regional Councils and other partners such as the NHS and Schools Forum, keeping abreast of developments and announcements by Government especially through various agencies such as Sigoma and Local Government Yorkshire & the Humber (LGYH). The MTFS is a living document which is formally reviewed by Council on an annual basis along with intermediate updates for Senior Management as further information becomes available.

Sensitivity Analysis

The Council's current forecast contains a number of assumptions (the key ones being set out in Section 4) which impact on the level of its income and expenditure. Changes in these assumptions can have a fundamental effect on the bottom line savings the Council may need to make over the next 3 years.

It is more difficult than normal to predict all three years of the MTFS as government funding is as yet substantially unknown (although some broad indication has been given in last year's finance settlement and recent spending review). It is therefore vital that different scenarios or sensitivities are modelled so that the Council is able to adapt its finances should the central/base forecast be incorrect.

Best and worst case assumptions have therefore also been modelled so that the upside and downside risks to the Council's strategy can be seen. It should be stressed though that this gives the likely range of scenarios so, depending how the exact mix of variables eventually turn out, the forecast should conceivably be at any

point between the two views. Given the constantly changing political agenda it is also possible that the position could also be outside of these parameters.

Impact of Best Case Assumptions on the Base Case

Assumption	Impact 14/15 £m	Impact 15/16 £m	Impact 16/17 £m
Previously agreed savings delivered in full	-1.0	-1.5	-1.7
Retained Business Rates Growth 1% more than inflation pa	-0.3	-0.6	-0.9
No financial impact of transfer of benefits to DWP		-0.8	-0.8
Higher levels of Education Services Grant		-0.2	-0.7
Pay Award of 1% in 2016/17			-1.0
Use of New Funding Partially Available for Existing Pressures		-1.0	-1.0
Improvement in Base Forecast/Decrease in Savings Required	-1.3	-4.1	-6.1

Impact of Worst Case Assumptions on the Base Case

Assumption	Impact 14/15 £m	Impact 15/16 £m	Impact 16/17 £m
Further reductions in Government Grants 2016/17 onwards			3.0
Lower Achievement of Previous Years Savings	2.0	2.0	2.0
Loss of Business Rates to Safety Net Level	2.9	2.9	3.0
Council Tax Freeze Grant Accepted 2014/15 & 2015/16	0.6	1.2	3.0
Increased cost of the Council Tax Reduction Scheme	0.4	0.4	0.4
Education Services Grant Taken Away 2015/16 onwards		1.3	0.8
Deterioration in Base Forecast/Increase in Savings Required	5.9	7.8	12.2

Translating the above assumptions into a best and worst case scenario for overall savings requirements to balance the Council's budget over the next 3 years, the likely range of potential situations could be as follows:-

Projected Deficits/Savings Requirements

Scenario	2014/15 £m	2015/16 £m	2016/17 £m
Best Case	1.9	9.1	17.8
Base/Current Forecast	3.2	13.2	23.9
Worst Case	9.1	21.0	36.1

No attempt has been made to determine the probability or likelihood of any of the scenarios referred to above. At this stage, however, it would be advisable to plan for at least the base case scenario in terms of the additional savings required in 2014/15, 2015/16 and 2016/17.

Section 6 Summary and Conclusions

The Council has set itself ambitious goals across a wide spectrum as can be seen in Section 2 of this MTFS. These are expected to be even more challenging given the economic climate that we are likely to be facing over the next three years.

The Council has already put plans in place to make savings of around £66m by 2014/15 at the same time as delivering a Capital Programme which will result in the investment of £115m over the next 4 years in Calderdale including £40m in Halifax Town Centre. This will be financed from a combination of government grants, the sale of surplus assets and the use of borrowing where appropriate.

The base forecast shows that additional savings are expected to be required in each year of the new MTFS. Although the savings of £3.2m in 2014/15 are high, there is a pronounced jump in 2015/16 and again in 2016/17. Although we already have plans in place for significant savings in 2015/16, the recent announcements on local government funding mean that further substantial savings will still need to be identified, currently forecast to be £13.2m. The increase in 2016/17 is estimated at £23.9m mainly due to an allowance for inflation and other costs as well as growth which has not yet been budgeted for.

Some developments are within the Council's control such as the provision of additional budget for inflation and the future setting of Council Tax Reduction levels. Other factors are only partly under Council control (e.g. Council Tax which is subject to a government approved limit) and others are not under our control at all (transfers of responsibility, academies, Government grant etc).

Due to all of the above, in addition to the Council's central/base scenario, best and worst case assumptions have also been modelled so that the upside and downside risks to the Council's strategy can be seen. It should be stressed though that this gives the likely range of scenarios, but depending how the exact mix of variables eventually turn out, the forecast could conceivably be at any point between these two positions or even outside them given the level of uncertainty.

If the worst case scenario came to pass it could effectively add 50% to the level of savings required in 2015/16 and 2016/17 and more than double those projected for 2014/15. Likewise if the best case scenario occurred, the required savings in 2014/15 would be significantly reduced as would the ones thereafter, although, in reality, measures would still have to be introduced early in the period to be able to meet the target of nearly £17.8m in 2016/17.

It is therefore felt that the Council should concentrate its efforts on delivering its existing savings targets and identifying further savings using the central assumptions within the MTFS but retaining sufficient flexibility to adapt its plans as its financial position becomes clearer. There is some scope to utilise balances on a short term basis but unless these are replenished with more savings a permanent reduction would occur weakening the Council's financial resilience.

As in previous years a budget process will need to be initiated to identify the level of savings forecast within the MTFS.