

Name of meeting: Cabinet
Date: 2 October 2018

Title of report: Council budget strategy update report 2019-22

Purpose of the report

To determine the Cabinet’s approach to the annual update of the Council’s Medium Term Financial Plan (MTFP). This is reported to full Council each year, and sets a framework for the development of draft spending plans for future years by officers and Cabinet.

Key decision – is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Key decision - is it in the Council's Forward Plan (key decisions and private reports)?	Key decision - Yes
The Decision - Is it eligible for “call in” by Scrutiny?	No
Date signed off by Strategic Director & name	Jacqui Gedman, 24 September 2018
Is it also signed off by the Service Director for Finance	Eamonn Croston, 24 September 2018
Is it also signed off by the Service Director – Legal, Governance & Commissioning ?	Julie Muscroft, 24 September 2018
Cabinet member portfolio - Corporate	Cllr Graham Turner

Electoral [wards](#) affected: All

Ward Councillors consulted: All

Public or private: Public

RESTRICTIONS ON VOTING

Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where –

- (a) they are present at a meeting of the Council, the Cabinet or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and

- (b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in (b) above. It should be noted that such members are not debarred from speaking on these matters.

Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

1. Summary

- 1.1 The Cabinet is required under Financial Procedure Rules to submit to Council a provisional budget strategy update no later than October, each year. The provisional budget strategy in this report provides a budget planning framework to consider a 3 year Medium Term Financial Plan (MTFP) for 2019-22, and a 5 year Capital Plan for 2019-24.
- 1.2 The starting point for the Council's updated Medium Term Financial Plan (MTFP) is the existing revenue budget plans (2018-20) approved at budget Council on 14 February 2018, and updated 5 year capital plans (2018-23) approved by Council on 11 July 2018 as part of the 2017-18 financial outturn & rollover report.

The links to both these reports are included below:

[Annual budget report 2018-20 \(Agenda Item 5\)](#)

[2017-18 financial outturn & rollover report \(Agenda Item 8\)](#)

- 1.3 Existing budget plans have been reviewed, including a high level review of funding and spend assumptions. Any resultant gap between funding and spend forecasts will inform target spending controls for Strategic Directors to bring forward draft budget proposals for member consideration in accordance with the corporate budget timetable. At the same time, funding and spend assumptions will continue to be reviewed through the remainder of the current budget round, and updated spend control totals incorporated into finalised budget plans as appropriate.
- 1.4 The overarching context for the Council in determining its annual resource allocations has been national government policy over successive Parliaments from 2010 onwards, resulting in significant reductions in Government funding to the Council over the period. These have been in the region of £150m (equivalent to about 60% locally; with average national funding reductions over the period nearer 50%).
- 1.5 At the same time, Councils, in particular those with statutory social services responsibilities like Kirklees, have also faced significant and increasing service pressures; in particular in Children's and Adult Services, and these pressures are

set to increase over future years. The Local Government Association has predicted that the scale of the funding gap across English Councils will be about £7.8 billion by 2025.

- 1.6 The Council is the 7th lowest funded Council in the country, as measured by the Government's own spending power benchmark calculation, expressed as spend per head of the population (and second lowest of the 36 metropolitan authorities).
- 1.7 The combined impact of national funding reductions and service pressures on the Council has resulted in a cumulative revenue savings requirement of £183m over the 2010-218 period, including £54m in 2017-18 alone. Existing Council budget plans for 2018-20, include planned savings of £16.2m in 2018-19 and a further £13.2m in 2019-20.
- 1.8 The Council Corporate plan 2018-20 acknowledges the scale of financial challenges to date, and the tough decisions that have had to be taken to balance the books while protecting frontline services and our most vulnerable residents. It also recognises that to support this approach, it has also required the development of a different type of organisation with new and innovative ways of doing things, changing the way that we work with communities, keeping vulnerable people safe and in control of their own lives, and focusing on the things that only the Council can do.
- 1.9 The Corporate Plan also makes reference to Councillors' changing roles, and that in representing and serving the people and places of Kirklees, councillors' roles are growing – they are community leaders and at the heart of democratically elected local government.

The link to the Council's Corporate Plan is shown below :

[2018-20 Council Corporate Plan \(Agenda Item 9\)](#)

- 1.10 The Corporate Plan sets out a vision ; *“a district which combines a strong, sustainable economy with a great quality of life – leading to thriving communities, growing businesses, high prosperity and low inequality where people enjoy better health throughout their lives.”*
- 1.11 To deliver this vision, the intention is to move into the next phase of developing the Council to be one that focuses on achieving outcomes by working with people rather than doing to them, working with partners, and recognising the importance of local identity and how needs differ in different places. Existing budget plans for 2018-20, whilst acknowledging the continuing financial challenges facing the Council, also included significant new investment; in particular in children services, regeneration activity, transformation capability and corporate capacity to support this approach.
- 1.12 The updated spend assumptions in this report continue the approach set out in existing budget plans, in terms of acknowledging the further re-shaping of spending plans and targeted investment aligned to the Councils ambitions and plans.
- 1.13 This report, in setting out current assumptions underpinning the updated MTFP, includes acknowledgement of potentially significant unbudgeted risks. These include further Social Care pressures, and current lack of national funding certainty from Government post-2020.

- 1.14 The updated general fund budget forecasts are summarised at Table 1 below, including the current 2018-19 budget ;

Table 1 – Summary Baseline General fund budget forecasts 2019-22

Updated Baseline forecasts	18-19 £m	19-20 £m	20-21 £m	21-22 £m
Total Funding Available	(291.2)	(288.6)	(316.0)	(321.4)
Spending Plans	307.4	310.6	341.8	346.9
<i>Existing Planned Savings (reviewed)</i>	(16.2)	(26.6)	(29.7)	(31.4)
<i>New Service Pressures</i>		9.4	17.7	24.6
<i>New Service Investment</i>		2.2	2.2	2.2
Net spending plans	291.2	295.6	332.0	342.3
Budget Gap	-	7.0	16.0	20.9

- 1.15 Updated baseline budget forecasts indicate that existing 2019-20 budget savings are still deliverable, but the timing of delivery of some of these has been re-profiled into later years. New service pressures largely reflects volume pressures, net of any service specific external funding allocations; mainly in Children & Families; educational High Needs pressures, and Adults demand led pressures.
- 1.16 This report also sets out a number of proposed investments, acknowledging that existing plans will continue to develop and re-shape to better align with the Council's ambitions set out in the 2018-20 Corporate Plan.
- 1.17 The net effect of the changes set out at Table 1 above indicate a budget gap across years i.e. further budget saving requirement, of **£7m** in 2019-20, **£9m** in 2020-21 (cumulative £16m) and **£5m** in 2021-22 (cumulative £21m) to deliver a balanced budget. These further savings requirements are in addition to existing planned savings (reviewed).
- 1.18 This report also acknowledges that in light of current national funding uncertainty beyond 2020, updated budget forecasts in later years are more susceptible to significant variations. While the updated baseline budget forecasts are considered reasonable and prudent at this stage, the inclusion of sensitivity analysis in this report reflects true extent of budget forecast sensitivities over later years; more so given the uncertain national funding context which Councils are expected to deliver accurate, robust and 'balanced' multi-year budget plans and financial strategies.
- 1.19 The funding uncertainty is also reflected in the approach to general fund revenue reserves set out in this report, in particular with regard to the requirement to maintain existing £37m financial resilience reserves at their current level, as a minimum, over the medium term.
- 1.20 The MTFP update also re-affirms the Council's current flexible capital receipts strategy framework in line with Government guidance which now extends the flexibility to 2021-22. This allows the Council to consider a range of approaches to capitalise qualifying revenue expenditure, funded through in-year generated capital receipts.

- 1.21 HRA budget plans support the delivery of a high quality landlord service to 23,000 Council tenancies alongside supporting the Council's strategic HRA capital investment ambitions, within a self-financed 30 year HRA business plan. The Council works closely with Kirklees Neighbourhood Housing (KNH), its partner arms length management organisation, to regularly review and update the HRA business plan.
- 1.22 Updated HRA budget forecasts assume the delivery of savings in view within existing budget plans 2018-20 as the starting point. The recently released Social Housing green paper includes a number of proposals which are reflected in updated budget forecasts, including proposed social housing rent uplifts at Consumer Price Index plus 1% over the 2020-25 period.
- 1.23 There is also acknowledgement that Government is proposing to drop proposals for a high value levy charge, which was intended to be an annual charge to HRA's, to compensate registered providers for loss of housing stock from the proposed introduction of right to buy in the registered provider sector. This will significantly improve the longer term financial sustainability of the self-financed HRA business plan.
- 1.24 The updated MTFP in respect of the Council's overall capital investment plans is summarised at Table 2 below :

Table 2 – Updated Capital Plan Summary 2018-24

	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m
Strategic Priorities	58.3	40.3	10.9	1.5	0.5	111.5
Baseline	36.7	30.7	25.6	25.3	25.3	143.6
Risks & Pressures	1.0	1.0	1.0	1.0	1.0	5.0
Total General Fund	96.0	72.0	37.5	27.8	26.8	260.1
HRA strategic priorities	11.0	7.6	6.0	6.0	6.0	36.6
HRA baseline	16.1	15.8	16.7	16.4	14.6	79.6
Total HRA	27.1	23.4	22.7	22.4	20.6	116.2
All Capital	123.1	95.4	60.2	50.2	47.4	376.3

- 1.25 The above plans are rolled forward from the existing 5 year capital plan (2018-23), approved at Council on 11 July 2018, as part of the 2017-18 financial outturn & rollover report, plus a new year 5. Existing plans include significant strategic priority investment over the period in regeneration activity, housing growth and development, and a new leisure facility for North Kirklees. The capital plan update presented here also includes some further capital changes at this stage.
- 1.26 These plans will be reviewed further through the remainder of the current budget round, including a more major officer re-work of the existing plan, consideration of emerging new investment requirements, and capital resource affordability.
- 1.27 Funding and spend forecast assumptions presented in this report will continue to be reviewed and any further changes will be considered for incorporation into the finalised annual budget report for Cabinet and Council approval in February 2019.

2. Information required to take a decision

- 2.1 This report includes a range of supporting information set out in the following appendices:

Appendices

A	Summary general fund funding and spend forecasts 2019-22
B	General Fund Reserves
C	Summary Housing Revenue Account (including reserves) 2019-22
D	Summary Updated Capital Investment Plan 2018-24
E	Council flexible use of capital receipts strategy
F	Corporate Risk Register
G	Corporate Budget Timetable
H	Sensitivity analysis key assumptions

2.2 General Fund

- 2.2.1 Appendix A represents a high level re-refresh of funding and spend forecasts over the 2019-22 period, informed by a range of current national, regional and local intelligence.
- 2.2.2 The following sections of this report set out in more detail the underpinning assumptions informing the updated forecasts.

FUNDING ASSUMPTIONS

2.3 National Funding Outlook

- 2.3.1 The 2019-20 Local Government Finance Settlement technical consultation ran from 24 July to 18 September 2018. It set out Government's intention to confirm year 4 of the multi-year settlement that 97% of all Councils (including Kirklees) previously signed-up to, to provide 'certainty' over the 4 years.
- 2.3.2 The technical consultation also confirmed that Government is working towards significant reform in the local government finance system from 2020-21, including a more robust and transparent distribution methodology to set baseline funding levels, and resetting business rates baselines.
- 2.3.3 At this stage, it is not clear what the likely national funding position will be for the local government sector, or individual Councils from 2020-21 onwards. In light of this continued uncertainty, updated Council baseline funding forecasts assume a prudent position that national funding reductions will continue from 2020-21; equivalent to £3.2m further funding reduction each year from 2020-21 onwards against the Council's baseline funding allocation for that year, which Government intends to 're-set'.

2.4 75% Business Rates Retention Scheme implementation from 2020-21

- 2.4.1 Government's original intention was to implement a 100% scheme nationally from 2020-21 onwards, to be enacted through a Finance Bill. However, following the General Election on 8 June 2017, the Bill was not progressed. Government however remains committed to promoting greater financial self-sufficiency in Local

Government, and is instead intending to implement a 75% national scheme from 2020-21, which it can do within existing legislation.

- 2.4.2 It is intended to be 'fiscally neutral' at a national level, which means that the 'technical implementation' in itself would not leave any individual Council any better or worse-off. To compensate for the additional business rates income to be retained locally, it is anticipated that this will also involve a transfer of current Government funding responsibilities for Public Health at the same time.
- 2.4.3 This means that Council spending plans will increase by about £25m from 2020-21 onwards, because the Public Health specific grant contribution from Government will cease at this point. There will instead be a corresponding increase in business rates income retained locally, to compensate; 'net nil' overall budget impact. The updated budget forecasts set out at Appendix A reflect this adjustment. At this stage, it is not known if current Public Health specific grant conditions setting out eligible spend against the grant, and monitored by Public Health England, will continue in some guise, from 2020-21 onwards.

2.5 Leeds City Region & North Yorkshire Joint Business Rates Pilot bid 2019-20

- 2.5.1 Leeds City Region (LCR), along with 10 other Business Rates Pools, successfully bid to be a 100% business rates pilot for 2018-19 only, as part of a new round of bids offered to Councils by Government. The offer was originally set out as part of the 2017-18 Financial Settlement. Any potential gains were not explicitly incorporated into the Council's 2018-19 budget plans at the time. This was due to timing issues with the availability of the most up to date financial modelling projections for Pool members, based on business rates 2018-19 estimates formally submitted to Government at the end of January 2018.
- 2.5.2 However, anticipated minimum unbudgeted "one-off" gains of £1.6m were considered at Budget Council on 14 February 2018 and subsequently incorporated into a Cabinet approved report on 21 August 2018, alongside a late Government announcement of a specific Adult Social Care Grant for 2018-19 of £1.2m; combined funding of £2.8m to support a Social Care transformation and change programme over the 2018-20 period.
- 2.5.3 A Government business rates pool prospectus was released on 24 July 2018 inviting Councils to bid for a new round of 75% business rates pilots for 2019-20 only. The deadline for bid submissions was 25 September, and successful bids will be announced as part of the 2019-20 Provisional Financial Settlement sometime in December 2018.
- 2.5.4 Some existing pilots will automatically roll forward into 2019-20. These include the pre-existing 2017-18 devolution deal pilots, and Government is also in separate discussion with the London Boroughs about rolling forward their 2018-19 Pilot into 2019-20. All other current 2018-19 Pilots are effectively on an equal footing with other Councils to submit new bids for 2019-20. Government has also indicated that the 2019-20 Pilot programme is likely to be smaller than the 2018-19 programme.
- 2.5.5 In light of the anticipated smaller Pilot programme for 2019-20, and following regional discussions among Council Leaders and Chief Executives, there has been consideration of a Joint bid between Leeds City Region & North Yorkshire County

Council Pools. Government's prospectus criteria for 2019-20 bids includes testing new ways of working with different tier splits. The combined bid meets this test.

- 2.5.6 Pilot bids for 2019-20 would need to be submitted by the deadline date of 25 September 2018; signed off by the respective bidding member authority s151 Officers, following agreement from all participating member authority Leaders and Chief Executives. Government has not included a 'no detriment clause' for 2019-20 bids, compared to 2018-19. The original purpose of the no detriment clause was to ensure that Pool members were not any worse off by being part of a pilot. Financial modelling underpinning the 2019-20 joint bid has been co-ordinated by Leeds Council, who are the host administrating body for the current LCR Business Rates Pool. The non-inclusion of a Government no detriment clause is considered low risk for the 2019-20 Pilot bid submission.
- 2.5.7 The financial model underpinning a joint Leeds City Region/North Yorkshire 75% business rates retention Pilot submission, estimates a potential overall gain to the combined Pool in the region of £25m. The bid sets out proposals for distributing this; split between local and regional economic growth initiatives and individual contributions to member authorities. It also includes arrangements for governance of the 2019-20 Pool, using an approach similar to the existing 2018-19 LCR Pooled arrangement, through a Joint Committee, but with an expanded membership to ensure all member authorities in the expanded Pool were properly represented.
- 2.5.8 The deadline for publication of this report as part of the 2 October Cabinet papers, is 24 September; one day ahead of the 25 September deadline for 2019-20 Pilot applications. At this stage, the budget forecasts in this report assume that a finalised and ultimately successful joint bid will be submitted as described above, with a potential one-off gain to Kirklees of about £2m in 2019-20, based on current financial model estimates. Should any bid not be successful, it is assumed that the pre-existing 50% business rates LCR Pool, would continue as is, for 2019-20.

2.6 Business Rates Appeals

- 2.6.1 The Council has a prudent £11.5m bad debt provision for appeals valuations outstanding; largely relating to the 2010 list, some still outstanding from the 2005 list, and anticipated appeals from the 2015 list. A new appeals system was implemented by Government from April 2017, intended to reduce the overall volume of new appeals against the most current 2015 rating list. Current Valuation Office data suggests that new appeals from the 2015 ratings list are significantly lower in volume than previous rating list appeals. A prudent officer assessment suggests that the bad debts appeal provision requirement going forward can be revised, and in the region of £0.8m re-paid to the general fund in 2019-20 from the Collection Fund, as a result of this anticipated adjustment.
- 2.6.2 In-year collection fund monitoring for 2018-19 indicates that business rate projections are broadly on line with budget. In light of the current economic climate, no net growth assumptions have been built into future year business rates income projections, at least at this stage. This is also consistent with previous budget round assumptions on net business rates growth

2.7 Council Tax Referendum Principles 2019-20

- 2.7.1 The 2019-20 Local Government Finance Settlement technical consultation sets out a council tax referendum limit for Councils of up to 3% in 2019-20, similar to the referendum limit applied in 2018-19.
- 2.7.2 It is at the discretion of the Council to decide whether or not to uplift Council Tax in 2019-20, up to 3%, without triggering a referendum. The current officer assumption is that Council Tax will be uplifted by 2.99%, and this is incorporated into updated funding forecasts; equivalent to £5.2m additional funding. Assumed Council tax increases for the following 2 years are 1.99% per annum; equivalent to £3.6m additional funding each year.
- 2.7.3 At Band A level, 2.99% uplift in 2019-20 is equivalent to an annual uplift of £29.21; from £977.18 in 2018-19 to £1,006.39 in 2019-20 (before fire, police and parish council precepts). Government has confirmed that the referendum principles will not apply to Parish Councils in 2019-20, but will continue to keep this area under active review.
- 2.7.4 There were also Council tax uplifts of 3% in 2017-18 and a further 3% 2018-19 in respect of the Adult Social Care precept, which Government made available to Councils; hypothecated fully to adult social care spend in line with Government conditions. Councils were able to apply an adult social care precept uplift of no more than 6% over the 2017-20 period. Kirklees applied 3% uplifts in 2017-18 and 2018-19, and are now at the 6% limit. The technical consultation states that proposals for the precept remain as per existing Government guidance set out above.
- 2.7.5 The technical consultation does however note that *“following consideration of responses, the Government intends to provide an update on its proposals for council tax referendum principles including the Adults Social Care precept, alongside the provisional Local Government Finance Settlement later in the year.”*
- 2.7.6 The local Council Tax Reduction scheme is means tested and works so that those not “protected” are required to pay at least 20% of their full council tax liability. The local scheme only applies to those of working age, the national pension age scheme means there is no such minimum payment and many pensioners are assessed as having nothing to pay. Future year budget forecasts assume that this will continue as is.
- 2.7.7 Government has also made provision to allow Councils local discretion to implement a 100% empty property premium charge after 12 months, increasing to 200% after 24 months and 300% after 36 months. There is currently a 50% premium charged on properties still empty after 24 months. At the time of writing no date has been set in parliament for the Bill to receive Royal Assent but it is expected that the Bill will become law and that there will be sufficient time for Council to make a decision as to whether to adopt those premiums.
- 2.7.8 Officers will bring forward a further report to Cabinet and Council later this year with a view to locally implement this revised national policy. A current prudent assumption of £360k additional Council Tax income gain from 2019-20 is already factored into existing budget forecasts. The modelled impact of potential future year premium gains is currently under review.
- 2.7.9 Council tax funding projections assume Council Tax Base growth over the next 3 years, at an average increase (Band D equivalent) of 700 properties in 2019-20,

700 properties in 2020-21, and a further 700 properties in 2021-22. This is a continuation of growth assumptions set out in existing budget plans. Current in-year revenue monitoring 2018-19 suggests forecast council tax income is broadly in line with budget.

- 2.7.10 Current updated assumptions on business rates, council tax growth and any associated service infrastructure pressures will continue to be reviewed through the remainder of the current budget round, and any further revisions factored in as appropriate. This includes consideration of the potential impact of the housing strategy 2018-23, reported to Council on 12 September 2018. The link to this report is shown below:

[Housing strategy report 2018-23 \(Item 9\)](#)

2.8 Un-ringfenced Grants

- 2.8.1 While these grants are separately identifiable, the Council can apply this funding flexibly to meet overall Council spend priorities. Future year budget forecasts largely reflect existing budget plan allocations for 2019-20.
- 2.8.2 Housing & Council Tax Administration Grant allocations are forecast to reduce year on year by about £150k. This reflects the assumed pace of Universal Credit rollout in the District over the next 3 years, and consequential impact on reduced grant required due to reduced volumes of Housing Benefit directly administered by the Council over the period. There is a further £150k technical reduction in 2019-20 which adjusts the baseline to match current allocations.
- 2.8.3 The current New Homes Bonus (NHB) assumption is £4m in 2019-20, in line with Government indicative calculations for 2019-20, set out as part of the 2018-19 final financial settlement. The 2019-20 forecast has similarly been applied over future years. This is assumed to be a prudent forecast.
- 2.8.4 From 2017-18, Government introduced a national baseline for housing growth of 0.4% of Council tax base, below which NHB would not be paid. Government has retained the option to make adjustments to the baseline percentage in 2019-20 and future years, to reflect any significant additional housing growth and the requirement to remain within national spending limits. Any changes and impacts will be detailed at the time of the provisional 2019-20 financial settlement. It is also Government's intention for a more fundamental review of how to incentivise housing growth more effectively which could significantly impact on NHB in its current form, from 2020-21 onwards.

2.9 Adult Social Care Grant Funding

- 2.9.1 Demand led volume and cost pressures and demographic trends are having a continuing and significant impact on already stretched Council budgets and this has been well documented both nationally and at a local level over recent years.
- 2.9.2 These pressures have largely been contained over the 2016-20 period through a combination of Adult Social Care precept uplifts and additional Better Care Funding (BCF) allocations; albeit about half the 'additional' BCF has been funded from a national top-slice of pre-existing Council resources (New Homes Bonus), re-

directed to BCF. The cumulative impact of the above funding measures has been to add £27.9m to Adults annual base budget in 2019-20 compared to 2015-16, such has been the scale of increasing service pressures over the period.

- 2.9.3 There is however national recognition that beyond 2020, continuing and increasing adult social care pressures will be beyond the means of existing Council budgets to be able to contain over the longer term, and that a national funding solution is required.
- 2.9.4 Government has indicated that its intended green paper on the future funding of adult social care will be considered in autumn this year, alongside Government proposals for £20 billion additional funding for the NHS over the 2020-25 period.
- 2.9.5 Existing budget plans include Government funding through the additional Better Care Funding (BCF) allocation, which totals £12.4m in 2018-19, increasing to £15.4m in 2019-20. This is Government funding directed at English Councils with social care responsibilities. The funding is channelled through the Pooled Budget arrangements that Councils with social care responsibilities have with their local Clinical Commissioning Group Partners.
- 2.9.6 This funding has a number of national Government conditions attached to its spend, including measures to increase the rates of hospital discharge and reduce bed blocking, through more integrated local health and social care arrangements. While Government has not confirmed that the current level of 2019-20 funding will continue into future years, budget forecasts assume this to be the case.
- 2.9.7 A one-year Adult Social Care grant was announced late in the budget process by Government, as part of the finalised financial settlement for 2018-19. The allocation for Kirklees was £1.2m, subsequently earmarked to support a range of social care transformation and change activity over a 2 year period.
- 2.9.8 Government has made no formal announcement about continuing this grant into future years, but in light of continuing and significant pressures on Adult Social care budgets, updated budget forecasts assume that Government will maintain the existing £1.2m grant allocation in 2019-20 and future years.
- 2.9.9 For the reasons set out in paragraph 2.9.4 above, updated budget forecasts assume that from 2020-21 onwards, Government will commit to additional funding to support Councils with social care responsibilities. At this stage, any such 'additional' funding is assumed for presentational purposes to be by way of un-ringfenced grant, and mirrors what an equivalent 2% annual adult social care precept uplift would equate to from 20-21 onwards.
- 2.9.10 This equates to about £3.6m additional funding each year. This is considered a reasonable and prudent baseline assumption in the absence of any more detailed proposals from Government, which will not take shape at least before the 2019 Spending Review.

2.10 Schools Funding

- 2.10.1 Government introduced a revised National Funding Formula (NFF) for schools from April 2018. The NFF determines the amount of core revenue funding that goes directly to mainstream schools.

- 2.10.2 However, because the current funding arrangements for each local authority are the result of a complex combination of historical national and local funding decisions, the move to a National Funding Formula has produced significantly different outcomes for local schools and academies.
- 2.10.3 The NFF for Kirklees maintained schools is less generous than the pre-existing system but the NFF contains protections to mitigate most of the reductions delivered by the pure application of the new formula. This includes a Government minimum uplift of 0.5% in 2018-19 and also 2019-20 for the funding allocation per pupil within the overall Schools Block calculation.
- 2.10.4 The Council's indicative Schools Block funding in 2019-20 is £292m, the High Needs block is £36m, the Early Years block £27m and the Central School Services block £2.3m.
- 2.10.5 The High Needs block under the new NFF acknowledges the level of previous under-funding, and Government intention is to increase the annual allocation by £7m compared to the 2017-18 baseline. Due to transitional arrangements, this will be phased over a 7 year period, at about £1m per annum. This phasing is reflected in updated budget forecasts.
- 2.10.6 The NFF for schools funding was introduced in a 'soft' format across funding years 2018-19 and 2019-20. The NFF calculates the bottom-line Schools Block allocation to local authorities with local discretion over its distribution then to be agreed following consultation via the local Schools Forum, and a 'hard' format from funding year 2020-21. Schools block funding allocations from this point are intended to be calculated directly by the Education & Skills Funding Agency. The other three funding blocks within the Dedicated Schools Grant (High Needs, Central School Services and Early Years) would continue to be the responsibility of the Council to manage and allocate as appropriate.
- 2.10.7 For 2019-20 there is some flexibility to move funds from the Schools Block to the High Needs block, for example, to address financial pressure in the High Needs account. Up to 0.5% of the total Schools Block can be moved with the agreement of the Schools Forum; equivalent to £1.4m. If agreement was not reached, the Council would need the approval of the Secretary of State.
- 2.10.8 Any proposed movements above 0.5%, even with Schools Forum consent, would still require secretary of state approval.
- 2.10.9 The Council will keep under review the significant and growing high needs block funding pressures through the remainder of the current budget round (see also paragraph 2.12 further below), and will take a view on the potential flexibility as described in the above paragraph, taking account as well the provisional schools funding allocations for 2019-20 which will be released at the same time as the 2019-20 provisional financial settlement announcement.

SPENDING PLAN ASSUMPTIONS

2.11 Current year financial performance – general fund revenue

2.11.1 Current organisational and national intelligence informing the budget strategy update takes account of the most current financial monitoring. Quarter 1 financial monitoring, 2018-19, was presented to Cabinet 21 August 2018 (see report link below):

[Quarter 1, 2018-19 financial monitoring report \(Item 9\)](#)

2.11.2 There is a forecast overspend of £4.4m against £292m revised budget at Quarter 1 financial monitoring; equivalent to 1.5% variance against revised budget. There is good progress towards the delivery of £16.2m planned savings requirement in-year. Forecast savings are projected to be £14.0m; equivalent to 86% delivery. Elsewhere, there are forecast unbudgeted net pressures forecast at £2.2m.

2.11.3 The following sections set out in more detail, updated baseline spend assumptions across Strategic Director portfolios, highlighting as appropriate, key issues raised through current financial monitoring intelligence.

Updated spend assumptions – Strategic Director Portfolios

2.12 Children & Families – Learning, Skills & Early Support

2.12.1 The 2017-18 financial outturn report to Council on 11 July 2018 highlighted an underlying net service pressure on special educational needs activity, totalling £4.2m.

2.12.2 This pressure has continued and increased through 2018-19, based on Quarter 1 financial monitoring projections. The forecast in-year pressure is £6.4m. This includes a projected overspend of £3.7m in respect of placements of Kirklees children in independent and other local authority specialist provisions.

2.12.3 The average annual number of active placements in independent specialist provision has significantly increased over the last few years moving from an average of 88 active placements in 2016-17 to a current average of 126 as at June 2018; an increase of 43%. An increase of similar proportions is also evident over the same period in the annual average number of children placed in other local authority specialist provision, moving from an average of 20 children in 2016-17 to a current average of 28 children.

2.12.4 The balance of High Needs pressure is made up of £1.6m for support funding payments for high needs students in the local further education sector and £1.1m in respect of top-up funding to support rising numbers of increasingly complex need children within the mainstream schools sector.

2.12.5 Updated budget forecasts at this stage reflect these current pressures in service, and forecast a further increase of just over £1m, for 2019-20. As noted earlier at paragraph 2.10.5, assumed Government High Needs Block Grant uplifts of £1m per annum over the next 3 years will part mitigate against future service pressures. In conjunction with the above, it is also anticipated at this stage that pressures can also be part mitigated through a range of measures, including those described in the following paragraphs.

2.12.6 A Kirklees wide High Needs Strategic Review was reported to Cabinet on 20 February, 2018. The link to this report is shown below:

[Summary of findings from the Special Educational Needs and/or Disabilities \(SEND\) High Needs Strategic Review \(Item 14\)](#)

2.12.7 The Council is working with key education partners across the District on a comprehensive action plan to deliver a more effective, whole systems approach. This also includes a current review of District sufficiency requirements going forward; forthcoming proposals to be considered as part of emerging capital investment requirements through the remainder of this budget round.

2.12.8 An officer review of service requirements has further identified a significant investment requirement of £700k in the SENACT team, to support staffing, work force development and strategic development to achieve the necessary improvements set out above, and this requirement is included in updated spend forecasts.

2.12.9 A funding gap of £420k has been identified due to a number of factors including increased demand (increase of free nursery entitlement) and the increased provision of Early Intervention processes (Portage support to parents). By providing this funding, more resource can be dedicated to managing the needs of children as early as possible which will hopefully prevent the needs becoming more complex and potentially resulting in more expensive support packages in the future (for example via Education Health and Care Plans, or for family support).

2.13 Children & Families – Child protection & safeguarding

2.13.1 Existing budget plans include £5.5m sustainable investment in Child Protection & Family Support in 2018-19. Service budgets have been fundamentally reviewed and re-shaped to align with the Children Improvement Plan, which is based on a long term Partnership with Leeds Council.

2.13.2 The Council is making good progress in the delivery of significant improvements in outcomes of children, and meeting the recommendations set out in the original inadequate rated OFSTED report in November 2016.

2.13.3 These improvements include measures to reduce the number of children placed outside the District, with planned savings of just over £3m over the next 3 years. These improvements are ongoing, and the planned savings associated with out of area placements have been re-profiled across later years to reflect a more realistic timescale of delivery.

2.13.4 Planned improvements also include ongoing investment in a restorative practice team at £600k. This additional capacity is currently funded through a one-off Government grant for 2018-19 only, but on the basis that Council commitment to ongoing restorative practice investment is essential to the successful delivery of the Improvement Plan. Also, following the recent implementation of a new caseload management system within service, Liquid Logic, there is an identified ongoing investment requirement to support and maintain the system, at £240k, also built into updated spend forecasts.

2.13.5 Updated budget plans also build in demand led price inflation across the range of looked after children support provision.

2.14 Adults & Health

2.14.1 Existing budget plans include additional base budget resources of £9.7m in 2018-19 for demand led volume pressures, over 65's demographic pressures, and provider cost pressures; the latter relating to social care external provider costs impacted on by a 4.6% national living wage uplift in 2018-19. A further £3.2m is built into existing 2019-20 budget plans, to meet volume and demographic pressures.

2.14.2 Updated budget forecasts include a further assumed 4.6% National Living Wage uplift in 2019-20, with a corresponding impact on provider costs of about £4.3m.

2.14.3 At this stage, future year budget forecasts assume similar annual volume and cost increases over the 2020-22 period. However, all the above assumptions will be subject to detailed service review and challenge through the remainder of the budget round; in particular with regard to more detailed and robust business intelligence informing modelled service demand scenarios, and potential mitigating service actions. These include the impact of significant ongoing organisational investment in social service transformation and change, and the future shape, direction and impact of social care and health integration locally.

2.15 Economy & Infrastructure

2.15.1 Existing budget plans include £10k base budget allocation activity per ward; £230k in total, plus one-off resources totalling £706k for ward committed expenditure, rolled forward through earmarked revenue reserves. In addition, Cabinet will consider in due course, detailed proposals for the use of Council approved revenue rollover resources of just over £1.5m for Public Realm works.

2.15.2 The above measures are supported by a District wide 'ward squad', which it is intended to start to deploy from November 2018. Existing budget plans included £250k base budget investment to support this initiative.

2.15.3 Updated spend forecasts include a commitment to double the annual base budget allocation for ward based activity from £10k current to £20k per ward from 2019-20 onwards. The doubling of the allocation per ward has been resourced from existing 2018-20 budgeted resources set aside for for Place based activity, currently held within the Office of Chief Executive's Transformation Fund budget.

2.15.4 Elsewhere, there is acknowledgement of recurrent unfunded service pressures relating to schools transport, of £1m; in particular impacted on by current educational Special Educational Needs and/or Disability pressures. An additional pressure factored into updated budget spend forecasts is the financial impact of the loss of driver training police contract at £400k.

2.15.5 A recent officer review of health and safety and fire safety organisational compliance capacity requirements has identified an investment need of about £310k.

2.15.6 The Council's ambitions for Regeneration, including significant investment in town centre vibrancy, and plans for housing development and growth over the 2018-24

period, will require technical and officer project capacity, and an additional investment need of £300k has been identified. In addition, £4m has also been made available within existing earmarked revenue reserves to address the likely scale of other “one-off” costs required to support the scale of regeneration capital investment over the 2018-24 period (see also, paragraph 2.18.5).

2.15.7 The Council’s current Waste Contract ends in 2022-23, and work is ongoing to review options for 2023-24 onwards. It is anticipated that there will be an overall increase in costs from current. This includes the current annual PFI grant contribution of £3.2m which ends on 31 March 2023.

2.16 Corporate Services

2.16.1 Existing budget plans include £3m additional capital investment in the Council’s Digital transformation programme, in recognition of the scale of transformation required. The Council’s IT service has planned savings of £1.2m in 2018-19, and there are further planned IT savings of £1.3m in 2019-20 included in existing budget plans. The 2019-20 planned savings have now been deferred 12 months, to allow more time to review organisational IT requirements going forward.

2.16.2 Corporate capacity has been reviewed, in particular in light of more stringent General Data Protection Regulation (GDPR) requirements, with an identified need for additional investment of £200k per annum from 2019-20 onwards. Corporate business intelligence capability has also been reviewed, with an additional revenue investment identified at £130k per annum.

2.17 Central budgets

2.17.1 Contingency inflation assumptions have been updated to ensure pay provision requirements for the 2018-20 national pay award are fully met. Also factored in are assumed pay awards of 2% in both 2020-21 and 2021-22.

2.17.2 Price inflation is zero over existing budget plans. Strategic Director portfolios are operating within cash limit budgets over this period. The only exceptions relate to energy and waste contract inflation. Updated forecasts over the 2020-22 period assume an annual price inflation allocation equivalent to 1%, and separate inflation calculations as current, for energy and waste contract inflation.

2.17.3 Income inflation is assumed at 2% per annum, other than acknowledgement of ongoing pressures on car parking and markets income, which will continue to have zero inflation.

2.17.4 Contingency budget requirements have also been updated to accommodate annual £300k PFI repayment costs relating to schools, for which an earmarked reserve had previously been set aside (see also paragraph 2.18.10). A further £1m increase is required from 2019-20 to reflect a prudent break-even position on the Council’s insurance fund going forward. Current in-year forecasting indicates that a £1m target surplus factored into existing budget plans was overly optimistic in light of ongoing Council service and external insurance provider premia requirements.

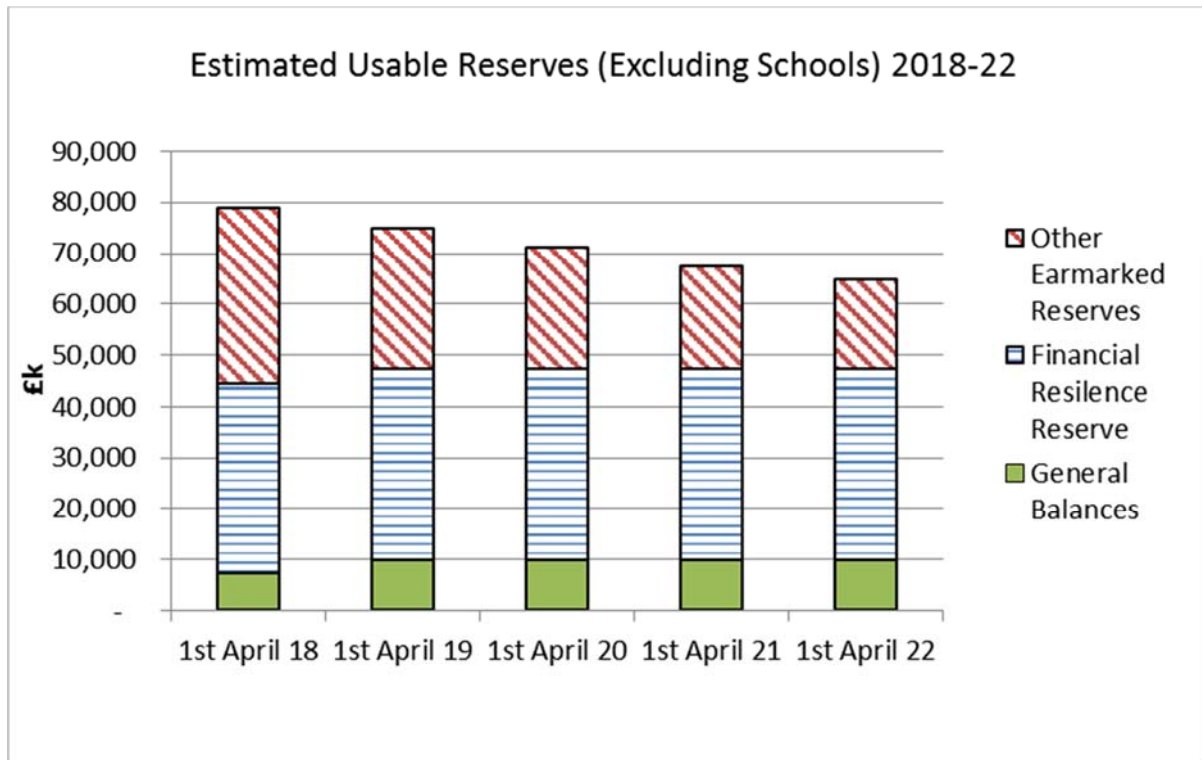
2.17.5 The next 3 yearly (tri-ennial) actuarial review of employer contributions to the West Yorkshire Pension Fund (WYPF) will be undertaken in preparation for 2020-23 period. Updated spend forecasts assume a prudent 1% increase in employer

contributions from current, to 17.1%, from 2020-21 onwards; equivalent to £1.6m per annum.

- 2.17.6 Updated Treasury management budget forecasts assume a further 0.25% uplift in bank of England base rate to 1.0%, in 2019-20. This can be contained within existing budgets, due to slippage on borrowing within existing capital investment plans.
- 2.17.7 In conjunction with the forthcoming review of current capital investment requirements (see also paragraph 2.22), it is intended to further review borrowing affordability over the 2018-24 period, and bring forward any revised borrowing proposals for member consideration. This will also take into consideration, updated CIPFA Prudential Borrowing Code and Government Treasury Management guidance.
- 2.17.8 The financial outturn and rollover report 2017-18 included officer intent to review current treasury management investment policy and consider options for future investment opportunities that could make additional returns for the Council. It is intended to bring forward early options for member consideration as part of the half-yearly review of 2018-19 treasury management performance, for Cabinet and Council consideration later this year.
- 2.17.9 Existing Treasury Management budgets also reflect changes to the Council's treasury management policy relating to minimum revenue provision (annual revenue resources set aside for repayment of debt, also known as MRP), implemented from 2017-18 onwards.
- 2.17.10 This reduces ongoing MRP requirements to an estimated £4m per annum over the 2017-27 period, compared to the £13m actual current base budget provision for MRP; effectively 'releasing' £9m annual base budget, intended to support organisational flexibility and financial resilience over the medium to longer term.
- 2.17.11 Current year financial monitoring has applied £5m of the MRP 'flexibility' to help offset significant unfunded service pressures relating to Special Educational Needs & Disabilities activity. Updated budget forecasts assume the continued application of this £5m flexibility to continue to support High Needs pressures in 2019-20, but reducing thereafter by £1m each year; with an equivalent Government uplift in Dedicated Schools Grant funding, High Needs block to offset this.
- 2.17.12 The balance of £4m MRP flexibility not applied in 2019-20 remains in Treasury Management base budget at this stage, available to support organisational flexibility and financial resilience requirements going forward.

2.18 General Fund Revenue Reserves

- 2.18.1 A modelled forecast of general fund revenue reserves over the 2018-22 period is shown graphically below. These reserves are set out in more detail at Appendix B together with a summary explanation of each reserve held.



- 2.18.2 Existing earmarked reserves and general balances requirements have been reviewed and the modelled reserves position reflects the following changes as set out below. For context, Usable Reserves (excluding Schools) at 1 April 2018 at £78.9m, equates to 27% of net annual revenue budget of £291.2m; equivalent to 14 weeks in-year spend. Usable Reserves are forecast to reduce to £64.8m by year end 2021-22, which equates to 20% of net annual revenue budget of £321.4m; equivalent to 10 weeks in-year spend.
- 2.18.3 General balances are effectively unallocated reserves set aside to support day to day working capital requirements. While this has traditionally been set at a minimum £5m requirement, actual general balances held has in recent years been above the £5m minimum.
- 2.18.4 A review of Councils in the region and wider suggests that a minimum general balances requirement of £10m is more appropriate for a Council with an annual net revenue budget requirement of just under £300m. Current general balances have therefore been adjusted to achieve the £10m minimum requirement going forward.
- 2.18.5 Existing multi-year capital plans include significant investment in a range of regeneration activity, including town centre vibrancy and housing growth and development intent over the 2018-24 period. This has also entailed a recent officer review of ongoing organisational capacity requirements, and other resource requirement to support development, planning and delivery. To support this requirement, it is intended to create a specific regeneration reserve at £4m.
- 2.18.6 The Strategic Director Portfolio for Economy & Infrastructure includes a winter maintenance base budget provision based on a 'typical' winter gritting requirement. Given more recent year unpredictable severe weather events in the District, this is acknowledged to present a degree of budget risk. To mitigate against this, it is intended to establish a severe weather reserve, also at £4m.

- 2.18.7 Current capital plans include intent for the Council to support third party regeneration development through a revolving capital loan facility (Property Investment Fund), upto a maximum £25m. The Council also has a number of existing third party loans, the most significant being the Kirklees College loan, with £19m currently outstanding.
- 2.18.8 A new local government accounting code requirement was introduced in 2018-19 which relates to a range of balance sheet categories, incorporating financial assets and liabilities (International Financial Reporting Standard 9 - Financial Instruments). This is intended to strengthen balance sheet transparency. This includes a mandatory set aside or provision requirement against the potential risk of future loan default.
- 2.18.9 To support the accounting code requirement, it is intended to set aside an initial specific reserve for £3m. This will be further reviewed in line with emerging technical code guidance and interpretation, including advice from Grant Thornton, our external auditors, as appropriate, to ensure Council compliance with accounting code requirements.
- 2.18.10 The above specific earmarked reserves requirements have been facilitated through the release of other current earmarked reserves held. This includes the release of the £3.3m PFI-Prepayment reserve, which has a prescribed annual drawdown requirement of £300k. The annual drawdown requirement will instead be incorporated into Central Budget base budget from 2019-20 onwards.
- 2.18.11 Existing workforce restructure and transformation reserves totalling £10m have also been released. Spend commitments against these reserves will instead be reflected as capitalised costs within updated capital plans, allowed for under the current flexible capital receipts strategy. It is anticipated that there will be sufficient in-year capital receipts in both current and future years to accommodate this approach.
- 2.18.12 The balance of existing reserves re-directed to accommodate the new reserves requirements set out above, has been re-directed from the revenue Grants reserve as they are no longer required; £703k in total.
- 2.18.13 As a result of the above measures, the financial resilience reserves held at the start of 2018-19, at £37m, will be maintained at their current level.
- 2.18.14 Under Section 25 of the Local Government act (2003), in setting annual budgets the statutory s151 officer is required to give positive assurance statements in relation to the robustness of budget estimates and the adequacy of reserves and balances. There is no prescriptive guidance on the latter. Most recent sectoral guidance comes from a joint CIPFA/Local Authority Accounting Panel paper in 2014, which states :
- i) *when reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves;*
 - ii) *authorities should make their own judgements on such matters taking into account all the relevant local circumstances; and*

iii) in assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

2.18.15 The updated reserves position set out in this section of the report takes into account the above guidance.

2.18.16 This Council faces continuing and significant financial challenges and service pressures over the medium term. The national funding landscape post-2020 is uncertain, and there is potentially increased volatility in terms of impact from a range of risks recorded on the Council's updated corporate risk register (see Appendix F), including the potential high level impacts from the United Kingdom's withdrawal from the European Union. There are also a number of well documented national media reports regarding increasing numbers of Councils potentially at the brink of financial crisis.

2.18.17 The extent of this concern has also extended to the sector's professional accounting body, CIPFA, who recently consulted Councils on proposals on a benchmark measure of Councils relative financial resilience. This is alongside a proposed financial management code of practice to guide officers and members in understanding and considering all relevant factors in assessing Council financial resilience, including local as well as national factors. CIPFA will update Councils later in the year on emerging new guidance.

2.18.18 The Council has also set out its ambition to invest, transform and change. Financial resilience reserves are a key element of the Council's budget strategy in terms of Council financial resilience to manage unbudgeted risks and pressures over the 2019-22 period.

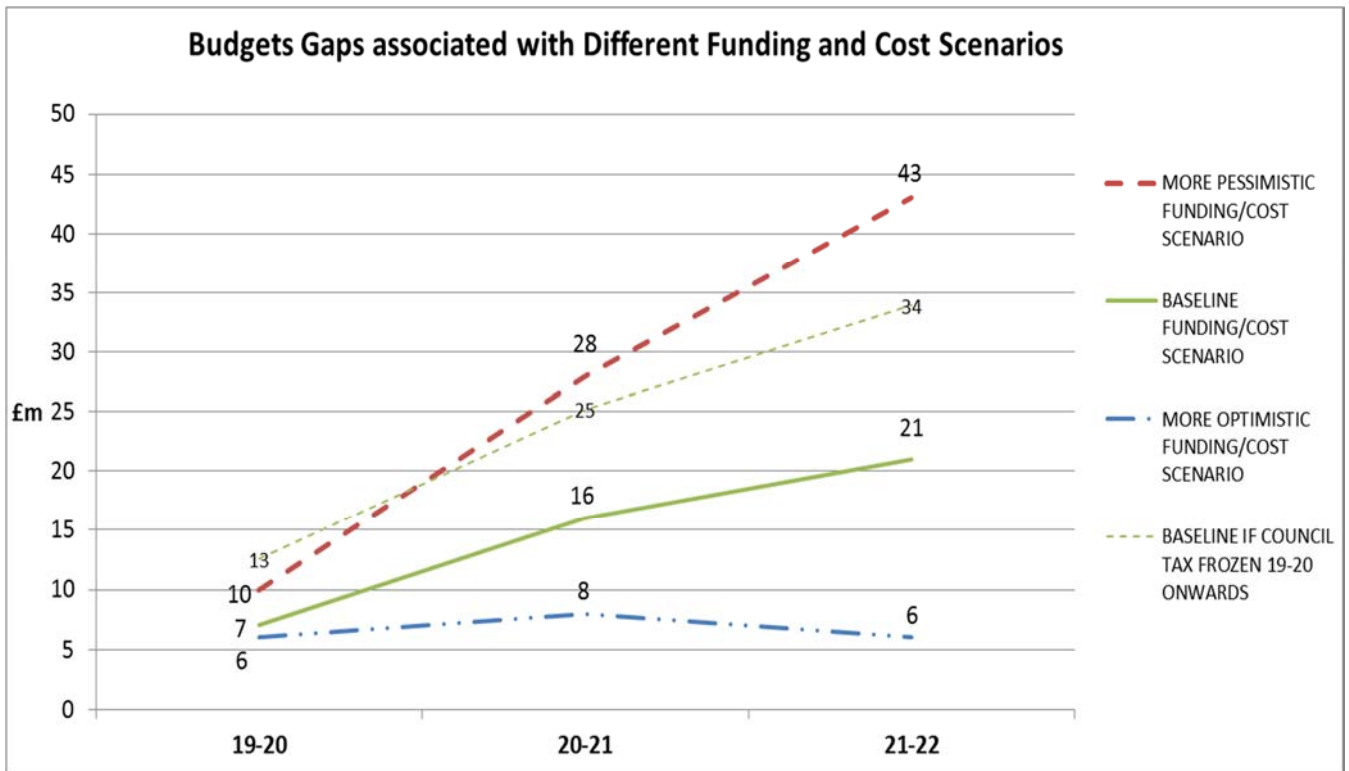
2.18.19 The s151 officer recommends that the existing £37m financial resilience reserves are maintained as a minimum at their current level, at least for the next 18 months, pending further analysis and clarification of the broader national and local funding, policy and economic landscape.

2.18.20 The following section includes some sensitivity analysis regarding updated baseline budget forecasts included in this report. The range of sensitivities reflect marginal changes to a number of key assumptions but show the extent of potential volatility of medium term budget forecasts, in a climate of increased external funding and economic uncertainty.

2.19 BUDGET FORECASTS – SENSITIVITY ANALYSIS

2.19.1 Included at Appendix H are a range of potential sensitivities on baseline budget forecast assumptions as set out in this report. While these sensitivities are illustrative, and there can be different combinations, in broad terms they represent relatively minor changes to a number of key baseline budget forecast assumptions, and the cumulative impact of these over time.

2.19.2 The impact of these budget forecast sensitivities are summarised in the graph below.



2.19.3 Illustratively here, the forecast budget gap by 2021-22 could be in the actual range £6m to £43m, and to a large extent this reflects the extent of both Council funding uncertainty post-2020, and the potential impact of the highlighted headline corporate risks, compared to baseline budget forecast assumptions.

2.19.4 Also included in the sensitivity analysis for illustrative purposes is the cumulative impact on current baseline budget gap assumptions over the 2019-22 period, if the Council decided to maintain council tax at 2018-19 levels over the next 3 years. The cumulative impact would be a further £13m budget pressure by 2021-22.

2.20 Flexible Capital Receipts Strategy

2.20.1 Current flexible capital receipts strategy guidance is set out by the Ministry of Housing, Communities and Local Government (MHCLG), and applies over the 2016-22 period. The web link to current Government guidance is shown below:

[Final Guidance on flexible use of capital receipts](#)

2.20.2 MHCLG guidelines state that the flexible use of capital receipts must be approved by full Council annually. The Council’s current flexible capital receipts strategy is incorporated into this report, at Appendix E.

2.20.3 The proposed strategy included at Appendix E incorporates the following qualifying ‘capitalisable’ revenue expenditure :

- i) cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation; and

- ii) driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;

2.20.4 Appendix E sets out the Council's flexible capital receipts strategy framework. To support the Council's revised earmarked reserves requirements, it is intended to reflect the intended continued capitalisation of transformation and workforce restructure costs within the updated capital plan.

2.21 Housing Revenue Account (HRA)

2.21.1 The overarching context for the existing multi-year HRA budget plans rolled forward into 2018-22 MTFP update is a sustainable, self-financed 30 year HRA business plan, which delivers the following key objectives :

- i) annual servicing of HRA debt upto the £247m borrowing cap limit set by Government,
- ii) capital improvements and maintenance of all Council housing stock to a minimum decency standard ,
- iii) delivery of high quality and cost effective housing management and repair service, and
- iv) inclusion of funding for a number of HRA strategic capital priorities and scope to consider further investment opportunities

2.21.2 Updated HRA budget forecasts are summarised at Appendix C. They reflect the final year impact of Government's annual 1% social housing rent reduction, over the 2016- 20 period, enacted through the Welfare Reform and Work Act 2016. The recently released Government social housing green paper sets out proposals for social housing rents to increase by Consumer Price Index (CPI) plus 1%, over the 2020-25 period. This is reflected in the rent proposals for the 2020-22 period, with an assumed CPI level of 2.5%.

2.21.3 Right to Buys over the 2019-22 period are assumed to continue at about 173 per annum based on current trends.

2.21.4 Updated budget forecasts assume void level targets of 1.1%, and gradual annual uplifts in rent and service charge bad debt provision requirement from 2.1% current year, to 2.5% by 2021-22. The gradual uplift takes account of predicted rollout of universal credit, which includes housing benefit, and the likely impact of direct payment to tenants on income collection going forward.

2.21.5 The social housing green paper also includes the Government proposal not to progress the 'higher value' annual levy or charge, based on higher value property void rates. The levy was to be re-directed to private registered providers to compensate them for the loss of housing stock through the introduction of the right to buy scheme in this sector. This proposal, if enacted, could have been a significant 'risk' to the overall financial viability of the HRA 30 year business plan.

2.21.6 HRA revenue reserves commitments include a set aside of £4m for business risks; in particular, with regard to proposed welfare reform changes. The balance of commitments includes £1.5m working balance, and the planned build up (sinking fund) of reserves to support longer term HRA business plan capital investment requirements.

- 2.21.7 The Council, working in partnership KNH, jointly and regularly review and update the HRA 30 year business plan with the aim to produce a self-financed and balanced budget position over the 30 year plan that delivers the key objectives set out in paragraph 2.21.1 above.
- 2.21.8 The overall resourcing potential for the HRA will continue to be reviewed through the remainder of this budget round, factoring in the implications of the green paper, including capital resourcing capacity. The HRA has £69m current borrowing headroom potential against the £247m borrowing cap set by Government, and there may be potential to utilise at least some of this going forward to support the Council's ambitions and plans for housing development and growth.

2.22 Capital

- 2.22.1 The updated capital plan 2018-23 is detailed at Appendix D. It also includes a new year 5 early draft (2023-24).
- 2.22.2 The updated capital plan also includes some further changes at this stage. This includes an anticipated £6m Homes England grant to fully fund accelerated site development and disposal for housing, at the Soothill and Huddersfield Waterfront sites, which are included in the list of sites to support the Housing delivery Plan previously reported to Cabinet on 29 August 2018.
- 2.22.3 The changes also include a proposed acceleration of baseline HRA works by £7.5m over the 2019-23 period. The £7.5m proposal groups properties by estate and geography ensuring workforce, plant and materials can be delivered in a more efficient manner to take advantage of economies of scale and reduce delivery costs. A more detailed business case regarding this specific proposal will be reported to Cabinet in due course. Other HRA capital changes at this stage reflect current consideration of market provision as the now preferred option for the particular strategic priority schemes highlighted at Appendix D.
- 2.22.4 Changes to the plan also include a capitalisation line for transformation activity at an estimated £3m each year, from 2018-19 onwards, as per current flexible capital receipts strategy. This also enables the release of existing earmarked revenue reserves for the reasons as set out earlier at paragraph 2.18.11. While Government hasn't indicated its intention to extend the current flexible receipts strategy guidelines beyond 2021-22, the working assumption here is that they will be extended into later years, in due course.
- 2.22.5 Council officers are currently undertaking a major review of the current 5 year capital plan, including consideration of emerging new capital proposals not currently in view, to support the delivery of Council priority outcomes over the medium and longer term. The outcome of this review, including a re-working of capital plan affordability and re-prioritisation, will be factored into further updated capital plan proposals for member consideration through the remainder of the current budget round.

3. Implications for the Council

- 3.1 The Council's budget plans support the overall delivery of the following Council

objectives and Priorities within available resources:

- i) Early Intervention and Prevention (EIP)
- ii) Economic Resilience (ER)
- iii) Improving Outcomes for Children
- iv) Reducing demand of services

Financial, Legal & Other Implications

- 3.2 A robust Medium Term Financial Plan and budget strategy is a key element of financial and service planning. This will be updated in detail by full Council in February 2019. This report sets a framework for development of draft plans by officers and Cabinet, for consideration by all Members in due course.
- 3.3 Key funding and spend assumptions factored into the MTFP update will be subject to further review, informed by most current local and national intelligence, including the outcome of the Chancellor's Autumn Budget and the provisional government 2019-20 financial settlement.
- 3.4 Any further material changes to funding and spend assumptions will be considered for incorporation into the finalised annual budget report for Cabinet and Council approval in February 2019.

RISK ASSESSMENT

- 3.5 The MTFP update is based on a range of local and national intelligence, and risk assessments underpinning current and future funding and spend assumptions, acknowledging that the extent of these are all potential risk factors to the delivery of balanced budget plans over the medium term. This is summarised at Appendix F, alongside identified management actions to mitigate the risks.

Budget Planning Framework

- 3.6 The updated budget plans set out in this report provide the budget planning framework for officers to bring forward proposals to Cabinet and members through the remainder of the current budget round, in order to deliver a sustainable and balanced overall multi-year budget over the 2019-22 period.
- 3.7 The key budget timetable milestones for the remainder of this budget round are set out at Appendix G.

Budget Consultation

- 3.8 The Council's overall budget planning framework includes consideration of wider engagement and timetabling on stakeholder views on high level priorities in resource allocation. This will be timetabled for a 6 week period between November-December. Stakeholder views on emerging HRA budget proposals will be considered through the relevant Council Tenant stakeholder forums.

- 3.9 In addition, there may be a requirement for more detailed service consultations, led by the relevant services, on specific service budget proposals. These will engage service users as early as possible, and target the groups most likely to be affected.
- 3.10 There is also on-going engagement with the business and voluntary and community sectors.
- 3.11 Key budget proposals include accompanying evidence available to members; namely officer led equalities impact assessments, which are undertaken annually and reviewed and updated as appropriate, on a range of budget proposals. These are also made available on the Council's website, in a timely way. This purpose of the assessments is to ensure that decision makers have due regard to the Council's equalities duties on key decisions.

4. Consultees and their opinions

- 4.1 This report is based on consultation with the Council's Executive Team and Cabinet Members in assessing the current issues, risks and factors to be addressed.

5. Next Steps

- 5.1 Resultant budget proposals will be submitted to Cabinet and full Council. The Council's Chief Finance Officer (& Service Director, Finance) will co-ordinate the development of draft budget proposals and options, and supporting budget documentation within the budget framework and planning totals.
- 5.2 Cabinet will bring forward detailed budget proposals in the new year, for consideration at Budget Council on 13 February 2019.

6. Cabinet portfolio-holders recommendations

The portfolio holder supports the recommendations in this report, and welcomes the changes to the way the budget update has been prepared.

In a time of great uncertainty around the funding of the Council in future years, and also national and international events having the potential to impact on the Council's costs, this budget update takes a pragmatic view in light of all these uncertainties.

It's important that we have a flexibility within the budget to allow us to react to these uncertainties, and this update allows the degree of flexibility that we need at this time.

The review of the capital plan will allow us to ensure that future spending plans are the correct ones and the ones that will allow us to invest without involving excessive risk.

As with all budget updates there has to be a certain amount of assumptions made, and I believe the assumptions we have made are reasonable and the correct ones for the position we and the nation finds itself in at this moment in time. Of course things can and will change, but I believe we have the ability and skills to be able to

react in a manner that will enable us to ensure our finances are sound and the we can continue to deliver the Council's outcomes.

7. Officer recommendations and reasons

Having read this report and the accompanying Appendices, Cabinet are asked to:

- 7.1 approve the updated baseline general fund revenue & HRA budget forecasts over the 2019-22 period set out at Appendix A (general fund) and Appendix C (HRA);
- 7.2 note the funding and spend assumptions informing the updated budget forecasts as set out in section 2 of this report;
- 7.3 note and endorse the joint Leeds City Region/North Yorkshire Business Rates Pilot bid for 2019-20;
- 7.4 approve the revisions to earmarked reserves and general balances as set out at Appendix B ;
- 7.5 note the existing 2018-23 capital budget plans rolled forward as set out at Appendix D, incorporating a draft year 5;
- 7.6 approve the changes to the existing Plan as set out at Appendix D;
- 7.7 approve the budget planning framework set out in this report,
- 7.8 approve the flexible capital receipts strategy set out at Appendix E,
- 7.9 approve the corporate budget timetable and approach set out at Appendix G; and
- 7.10 approve the budget consultation approach and timetable set out in this report

The above approach allows the updated budget plans to be adjusted subsequently for major factors identified and sets the basis for officers to update draft service plans within a clear Council budget framework.

8. Contact Officer

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Sarah Hill, Finance Manager, Finance
sarahm.hill@kirklees.gov.uk

9. Background papers and History of Decisions

Annual budget report 2018-20
Government Financial Settlement 2018-19
Technical Consultation – 2019-20 Local Government Finance Settlement
Annual financial outturn and rollover report 2018-19
Financial monitoring report 2018-19; Quarter 1
MHCLG Guidance; flexible capital receipts strategy
Council Corporate Plan 2018-20

- 10. Service Director responsible**
Eamonn Croston, Service Director, Finance
eamonn.croston@kirklees.gov.uk

APPENDIX A

General Fund Summary - Funding & Spending Plans 2019-22	18-19	19-20	20-21	21-22
	£000	£000	£000	£000
<u>FUNDING AVAILABLE</u>				
Business Rates Baseline	(97,446)	(92,823)	(118,128)	(118,128)
2.5% National Funding Reduction 20-21 onwards			3,203	6,144
Anticipated 19-20 Pool Gain		(2,000)		
Revised Business Rates Retention	(97,446)	(94,823)	(114,925)	(111,984)
Council Tax Baseline (18-19 level)	(160,082)	(160,082)	(160,082)	(160,082)
Additional 700 properties per annum		(1,029)	(2,055)	(3,081)
Empty Property Premium		(360)	(360)	(360)
2.99% increase 19-20, 1.99% thereafter		(5,192)	(8,803)	(12,527)
Adult Social Care Precept	(12,539)	(12,539)	(12,539)	(12,539)
Council Tax	(172,621)	(179,202)	(183,839)	(188,589)
New Homes Bonus	(4,700)	(4,000)	(4,000)	(4,000)
Business Rate Reliefs	(9,575)	(6,776)	(6,776)	(6,776)
Housing and Council Tax Admin	(2,114)	(1,814)	(1,664)	(1,514)
Independent Living Fund	(835)	(810)	(810)	(810)
Additional Adult Social Care Funding			(3,577)	(7,368)
Other	(436)	(372)	(372)	(372)
Total Un-ringfenced Grants	(17,660)	(13,772)	(17,199)	(20,840)
Collection Fund Transfer	(3,500)	(750)		
TOTAL FUNDING AVAILABLE	(291,227)	(288,547)	(315,963)	(321,413)
<u>SPENDING PLANS</u>				
Strategic Director Portfolios	261,460	262,598	262,598	262,598
Public Health Funding rolled into Business Rates			25,305	25,305
Central Budgets – Existing Plans	45,967	51,021	51,021	51,021
Central Budget Adjustments		(3,066)	2,884	7,934
	307,427	310,553	341,808	346,858
Planned Savings rolled forwards from 2018-20 MTFP	(16,200)	(29,398)	(31,119)	(31,384)
Review of Existing Planned Savings		2,834	1,438	
Revised Savings	(16,200)	(26,564)	(29,681)	(31,384)
UPDATED SPENDING PLANS BEFORE SERVICE PRESSURES AND INVESTMENT	291,227	283,989	312,127	315,474

APPENDIX A (continued)

General Fund Summary - Funding & Spending Plans 2019-22 (continued)	18-19	19-20	20-21	21-22
	£000	£000	£000	£000
UPDATED SPENDING PLANS BEFORE SERVICE PRESSURES AND INVESTMENT	291,227	283,989	312,127	315,474
<u>Service Pressures</u>				
<u>Childrens</u>				
High Needs Pressure		6,950	6,100	5,200
Childrens Demand Led Pressures		550	1,100	1,650
Improvement Plan (years 3 and 4)		0	510	510
<u>Adults</u>				
Adults Demand Led Pressures		4,300	12,350	19,700
Better Care Funding and Social Care Grant Offset		(3,800)	(3,800)	(3,800)
<u>Economy and Infrastructure</u>				
Schools Transport - High Needs Pressure		1,000	1,000	1,000
Loss of Driver Training Contract		400	400	400
Total Pressures	0	9,400	17,660	24,660
<u>Service Investment</u>				
<u>Childrens</u>				
Learning Investment (Portage and Access Fund)		420	420	420
Liquid Logic - post implementation support & maintenance		240	240	240
Restorative practice team investment		600	600	600
<u>Economy and Infrastructure</u>				
Fire Safety/Health and Safety		310	310	310
Additional Regeneration Capacity		300	300	300
<u>Corporate</u>				
Information Governance		200	200	200
Business Intelligence		130	130	130
Total Investment	0	2,200	2,200	2,200
UPDATED SPENDING PLANS INCLUDING SERVICE PRESSURES AND INVESTMENT	291,227	295,589	331,987	342,334
BUDGET GAP	0	7,042	16,024	20,921

GENERAL FUND RESERVES

General Fund Reserves	1st April 18 Including Approved Rollover	Reserves Review	Planned use in 18-19	1st April 19	1st April 20	1st April 21	1st April 22
School Reserves	(9,827)	0	0	(9,827)	(9,827)	(9,827)	(9,827)
<u>Earmarked Reserves</u>							
Financial Resilience	(37,146)	0	0	(37,146)	(37,146)	(37,146)	(37,146)
Workforce Restructure Transformation	(5,091)	5,091	0	0	0	0	0
Rollover	(4,944)	4,944	0	0	0	0	0
Revenue Grants	(3,463)	0	1,200	(2,263)	(1,063)	0	0
Stronger Families	(10,615)	703	2,000	(7,912)	(5,912)	(3,912)	(1,912)
Prepayment Reserve (PFI)	(1,924)	0	0	(1,924)	(1,924)	(1,924)	(1,924)
Insurance	(3,055)	3,055	0	0	0	0	0
Ward Based Activity	(1,900)	0	0	(1,900)	(1,900)	(1,900)	(1,900)
Property and Other Loans	(706)	0	250	(456)	(206)	0	0
Adverse Weather	0	(3,000)	0	(3,000)	(3,000)	(3,000)	(3,000)
Strategic Investment Support	0	(4,000)	0	(4,000)	(4,000)	(4,000)	(4,000)
Other	(2,905)	0	500	(2,405)	(1,905)	(1,405)	(905)
	(71,749)	2,793	3,950	(65,006)	(61,056)	(57,287)	(54,787)
General Balances	(7,207)	(2,793)	0	(10,000)	(10,000)	(10,000)	(10,000)
Grand Total	(88,783)	0	3,950	(84,833)	(80,883)	(77,114)	(74,614)

Note - Reserves with balances as at 1st April 2019 are described overleaf.

Glossary of Reserves

Reserve	Description
School Reserves	Statutory reserves relating to both individual schools balances/deficits carried forwards, and Dedicated Schools Grant (ring-fenced for schools related expenditure)
Financial Resilience	Covers a range of potential costs highlighted in the Council's corporate risk assessment, including budget risks as set out in the sensitivity analysis within this report.
Rollover	To fund deferred spend commitments against approved rollover
Revenue Grants	Represents grants and contributions recognised in the Comprehensive Income and Expenditure Statement before expenditure has been occurred.
Stronger Families	Represents deferred expenditure commitments supporting a range of Stronger Families activity.
Insurance	Mitigates against risk from increased liabilities and insurance claims.
Ward Based Activity	To fund deferred ward based activity commitments
Property and Other Loans	Set aside against the potential risk of future loan default. Arising from the introduction of a new local government accounting code intended to strengthen balance sheet transparency.
Adverse Weather	Mitigates against budget risk arising from severe weather events in the District.
Strategic Investment Support	To address the likely scale of one off costs required to support the scale of regeneration capital investment over the 2018-24 period.
Other	A range of smaller reserves earmarked for specific purposes, each less than £0.6m.
General Balances	General reserve available for Council use, excluding Housing Revenue Account purposes. Minimum level proposed to be £10m going forwards.

APPENDIX C

Housing Revenue Account (HRA) SUMMARY MTFP 2018-22

	18-19	19-20	20-21	21-22	22-23
	£000	£000	£000	£000	£000
<u>Repair & Maintenance</u>					
KNH Fee	22,800	21,242	20,900	20,900	20,900
<u>Housing Management</u>					
Policy & Management	13,622	13,172	13,172	13,172	13,172
Council services bought in	2,493	2,463	2,463	2,463	2,463
KNH Fee	16,577	15,745	15,745	15,745	15,745
Special Services (Communal)	1,652	1,517	1,517	1,517	1,517
Sub-total	34,344	32,897	32,897	32,897	32,897
<u>Other Expenditure</u>					
Depreciation charge	16,500	16,500	16,500	16,500	16,500
Interest on capital debt	8,454	8,132	7,903	7,587	7,587
Bad Debt Provision	2,652	2,752	2,852	2,952	2,952
Levy (High value voids)	-	-	-	0	0
Other	684	1,614	2,557	3,510	3,510
Sub-total	28,290	28,998	29,812	30,549	30,549
Total Expenditure	85,434	83,137	83,609	84,346	84,346
Dwelling rent income	(79,734)	(79,875)	(80,625)	(83,264)	(83,264)
Government Grant*	(7,912)	(7,912)	(7,912)	(7,912)	(7,912)
Tenant & Leaseholder charges	(3,186)	(3,392)	(3,674)	(3,800)	(3,800)
Other	(916)	(937)	(958)	(980)	(980)
Total Income	(91,748)	(92,116)	(93,169)	(95,956)	(95,956)
Net Operating Expenditure	(6,314)	(8,979)	(9,560)	(11,610)	(11,610)
Contribution to capital	6,314	8,979	9,560	7,651	4,430
Transfer to / (from) reserves	0	0	0	3,959	7,180
Net Bottom Line	0	0	0	0	0

Current & forecast HRA Reserves-Month 4 Monitoring

	18-19	19-20	20-21	21-22	22-23
	£000	£000	£000	£000	£000
As at April 1	(60,358)	(45,403)	(42,001)	(41,660)	(45,619)
Transfers to/from HRA	-	-	-	(3,959)	(7,180)
In-year capital funding	9,258	3,402	341	-	-
Earmarked - business risk	4,000	-	-	-	-
Earmarked – working balance	1,500	-	-	-	-
In-year forecast (HRA)	197	-	-	-	-
As at 31 March 2018	(45,403)	(42,001)	(41,660)	(45,619)	(52,799)

<i>2019/20 – 2023/24 Capital Plan Expenditure Summary</i>	<i>2019/20 £'000</i>	<i>2020/21 £'000</i>	<i>2021/22 £'000</i>	<i>2022/23 £'000</i>	<i>2023/24 £'000</i>	<i>Total £'000</i>
General Fund:						
Strategic Priorities	58,270	40,316	10,895	1,526	544	111,551
Baseline	36,694	30,655	25,581	25,331	25,331	143,592
Risks & Pressures	1,000	1,000	1,000	1,000	1,000	5,000
General Fund Capital Plan	95,964	71,971	37,476	27,857	26,875	260,143
Housing Revenue Account:						
Strategic Priorities	10,961	7,650	6,000	6,000	6,000	36,611
Baseline	16,168	15,767	16,675	16,375	14,605	79,590
HRA Plan	27,129	23,417	22,675	22,375	20,605	116,201
TOTAL EXPENDITURE	123,093	95,388	60,151	50,232	47,480	376,344
Assumed Slippage	-29,207	-22,565	-16,789	-12,728	-11,011	-92,300
TOTAL FUNDING REQUIREMENT	93,886	72,823	43,362	37,504	36,469	284,044

<i>Funding Summary</i>	<i>2019/20 £'000</i>	<i>2020/21 £'000</i>	<i>2021/22 £'000</i>	<i>2022/23 £'000</i>	<i>2023/24 £'000</i>	<i>Total £'000</i>
Direct / Earmarked Contributions to Schemes						
<i>Capital Grants / Contributions applied</i>						
-In Year	22,865	15,602	14,114	13,864	13,864	80,309
-Funding brought forward (previous yr)	9,850	5,192	4,760	4,760	4,760	29,322
-Funding carried to next year	-5,192	-4,760	-4,760	-4,760	-4,119	-23,591
<i>Earmarked Capital Receipts</i>	1,590	1,590	1,590	1,590	1,620	7,980
<i>Revenue Contributions (HRA)</i>	12,381	9,901	7,651	4,430	6,958	41,321
<i>Reserves (HRA)</i>	11,917	11,493	13,579	16,500	12,202	65,691
Pooled Resources						
<i>Non Earmarked Capital Receipts</i>	8,000	8,000	8,000	8,000	8,000	40,000
<i>Commercial Loan Repayments</i>	4,000	8,000	8,500	2,848	0	23,348
<i>Corporate Prudential Borrowing</i>	57,682	40,370	6,717	3,000	4,195	111,964
Assumed Slippage :						
<i>Borrowing Slippage</i>	-26,355	-19,523	-14,015	-10,004	-8,287	-78,184
<i>Grants Slippage</i>	-2,852	-3,042	-2,774	-2,724	-2,724	-14,116
TOTAL FUNDING REQUIREMENT	93,886	72,823	43,362	37,504	36,469	284,044

Strategic Priorities Capital Plan

Appendix D

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	5Yr Total £'000
Learning & Early Support								
New Pupil Places in Primary/Secondary Schools	G/B S106	10,975	9,848	972	545	544	544	12,453
Delivery of an Autistic Spectrum Disorder (ASD) School to mitigate expenditure on out of area ASD placements	B	150	1,000	1,500	350	0	0	2,850
<i>Learning & Early Support Total</i>		11,125	10,848	2,472	895	544	544	15,303
Adults Social Care Operation								
Pump Prime & Commissioning Specialist Accommodation	B	750	1,250	0	0	0	0	1,250
Commissioning Option Appraisals to facilitate outcomes of Specialist Accommodation Strategy	B	250	500	0	0	0	0	500
<i>Adults Social Care Operation Service Total</i>		1,000	1,750	0	0	0	0	1,750
Economy Regeneration & Culture								
Aspirational Regeneration of Major Town Centres - Feasibility	B	500						
Regeneration of Strategic Town Centres - Dewsbury	B	915	7,000	7,085	0	0	0	14,085
Regeneration of Strategic Town Centres - Huddersfield	B	1,050	12,172	10,759	6,500	0	0	29,431
Spenn Valley Leisure Centre	B	500	1,500	8,000	3,500	232	0	13,232
Spenn Valley Leisure Centre - KAL Contribution	B*	0	0	0	0	750	0	750
Huddersfield Leisure Centre	B	34	0	0	0	0	0	0
Dewsbury Learning Quarter	B	376	2,000	0	0	0	0	2,000
Local Growth Fund	B	550	0	0	0	0	0	0
Highways	G	151	0	0	0	0	0	0
HD-One (KSDL)	B	1,000	8,000	4,000	0	0	0	12,000
Property Investment Fund	B	8,000	9,000	8,000	0	0	0	17,000
Kirklees College Loan	B	6,000	0	0	0	0	0	0
Site Development	G	0	6,000	0	0	0	0	6,000
<i>Economy Regeneration & Culture Total</i>		19,076	45,672	37,844	10,000	982	0	94,498
Strategic Priorities Total								
		31,201	58,270	40,316	10,895	1,526	544	111,551

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Learning & Early Support							
Basic Need	G	836	2,152	500	500	500	500
Capital Maintenance	G	4,799	3,600	3,400	3,200	3,000	3,000
Devolved Formula Capital	G	939	900	850	800	750	750
One-Off Initiatives:							
SEND Provision	G	352	352	352	0	0	0
SEN future needs review – option appraisal commissioning	B	150	500	0	0	0	0
Early Years Provision	G	198	0	0	0	0	0
IT Infrastructure for Children's System	R	447	0	0	0	0	0
Healthy Pupils	G	358	0	0	0	0	0
Section 106 funded schemes	S106	2,157	0	0	0	0	0
Completed Schemes	G	106	0	0	0	0	0
Learning & Early Support Total		10,342	7,504	5,102	4,500	4,250	4,250
Adults Social Care Operation Total	G	300	700	0	0	0	0
Economy Regeneration & Culture							
Housing Private Sector							
Disabled Facilities Grants	G	3,452	2,721	2,721	2,721	2,721	2,721
Discretionary Assistance	R	163	100	100	100	100	100
Minor Adaptations	R	450	290	290	290	290	290
Other	G	2,001	0	432	0	0	0
Housing Private Sector Total		6,066	3,111	3,543	3,111	3,111	3,111
Economic Resilience	B/G	4,223	900	900	900	900	900
KAL - Self Funded	B*	3,456	500	617	617	617	617
Strategic Asset Utilisation /Rationalisation	B	2,560	300	0	0	0	0
Leeds City Region Revolving Fund	B	1,632	0	0	0	0	0
Economy Regeneration & Culture Total		17,937	4,811	5,060	4,628	4,628	4,628
Commercial Regulatory & Operational Services							
Highways							
Maintenance :							
Principal Roads	G	2,605	2,600	2,600	2,600	2,600	2,600
Roads Connecting Communities	G	2,074	1,369	1,164	856	856	856
Local Community Roads	B/G	2,872	2,247	2,247	2,247	2,247	2,247

Baseline Capital Plan (Continued)

Appendix D

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Structures	G	1,678	1,200	1,200	1,200	1,200	1,200
Street Lighting Replacement Strategy	B*	3,172	3,000	3,000	1,000	1,000	1,000
Unadopted Roads	B	130	50	50	50	50	50
Integrated Transport :							
Integrated Public Transport	B/G	806	300	0	0	0	0
Network Management	B/G	442	100	100	100	100	100
Cycling & Walking	B/G	135	20	20	20	20	20
Safer Roads	B/G	1,545	650	650	650	650	650
Town Centre Car Parking	B	596	100	100	100	100	100
Flood Management and Drainage Improvements	B/G	1,451	680	680	680	680	680
Developer Funded Schemes	S106	1,452	0	0	0	0	0
Highways Total		18,958	12,316	11,811	9,503	9,503	9,503
Corporate Landlord Asset Investment	B	5,665	4,250	2,300	1,300	1,300	1,300
Transport	B	2,317	1,250	1,250	1,250	1,250	1,250
Environment & Strategic Waste	B	148	100	100	100	100	100
School Catering	B/ B*	488	400	400	400	400	400
Electric Vehicle Charge Points	G	547	0	0	0	0	0
Commercial Reg & Operational Total		28,123	18,316	15,861	12,553	12,553	12,553
Office of the Chief Executive							
Ward Based Activity	B	192	0	0	0	0	0
Office of the Chief Executive Total		192	0	0	0	0	0
Corporate Services							
Information Technology	B*/ R	2,792	2,363	1,632	900	900	900
Flexible Capital Receipts Strategy - Transformation	R	3,000	3,000	3,000	3,000	3,000	3,000
Corporate Services Total		5,792	5,363	4,632	3,900	3,900	3,900
TOTAL BASELINE		62,686	36,694	30,655	25,581	25,331	25,331

FUNDING KEY:

B = Borrowing

B* = Service funded Borrowing - Work is ongoing to remove this category and have one system of prudential borrowing.

G = Grant

R = Capital receipts

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Strategic Priorities								
Housing Growth	H / R	4,320	4,000	4,000	4,000	4,000	4,000	20,000
New Build Phase 1 - Ashbrow Extra Care	H / G	990	3,961	1,650	0	0	0	5,611
New Build Phase 2 - Soothill Extra Care	H / R	0	0	0	0	0	0	0
New Build Phase 3	H / R	0	0	0	0	0	0	0
New Build Phase 4 - Environmentally Friendly Housing	H / R	(4,111)	0	0	0	0	0	0
Garage/Green Space Development Phase 1	H / R	2,038	0	0	0	0	0	0
Remodelling / High Rise	H	2,000	2,000	2,000	2,000	2,000	2,000	10,000
Strategic Priorities	H / R	0	0	0	0	0	0	0
IT System (Universal Housing Replacement)	H	0	1,000	0	0	0	0	1,000
Sub-Total		9,348	10,961	7,650	6,000	6,000	6,000	36,611
Baseline								
Housing Capital Plan	H	10,889	11,006	10,522	11,346	10,960	9,190	53,024
Estate Improvements (Housing Capital Plan)	H	1,988	731	746	760	775	775	3,787
Compliance	H	2,200	1,000	1,000	1,000	1,000	1,000	5,000
Fuel poverty	H / G	662	638	650	663	676	676	3,303
Adaptations	H	2,739	2,793	2,849	2,906	2,964	2,964	14,476
Sub-Total		18,478	16,168	15,767	16,675	16,375	14,605	79,590
TOTAL HRA PLAN		27,826	27,129	23,417	22,675	22,375	20,605	116,201

FUNDING KEY:

H = HRA revenue contribution/major repairs reserve

R = Capital receipts

G = Grant

Summary of Capital Plan Changes from Original Plan

Appendix D

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
ORIGINAL CAPITAL PLAN (Council 11.07.18)						
General Fund		91,887	86,964	68,971	34,476	24,857
Housing Revenue Account		31,937	25,128	25,530	31,596	26,109
TOTAL ORIGINAL EXPENDITURE		123,824	112,092	94,501	66,072	50,966
ADDITIONS/REDUCTIONS						
General Fund						
Strategic Priorities – Site Development	G	0	6,000	0	0	0
Baseline - Corporate Services, Flexible Capital Receipts Strategy	R	3,000	3,000	3,000	3,000	3,000
Sub-Total		3,000	9,000	3,000	3,000	3,000
Housing Revenue Account						
Strategic Priorities - New Build Phase 2 - Soothill Extra Care	H / R		0	(3,631)	(3,703)	0
Strategic Priorities - New Build Phase 3	H / R		0	0	(7,555)	0
Strategic Priorities - New Build Phase 4 - Environmentally Friendly Housing	H / R	(4,111)	0	0	0	0
Strategic Priorities - Strategic Priorities	H / R	0	0	0	0	(5,504)
Baseline – Housing Capital Plan	H / R		2,001	1,518	2,337	1,770
Sub-Total		(4,111)	2,001	(2,113)	(8,921)	(3,734)
TOTAL ADDITIONS/REDUCTIONS		(1,111)	11,001	887	(5,921)	(734)
REVISED CAPITAL PLAN		122,713	123,093	95,388	60,151	50,232

KIRKLEES COUNCIL - FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

1. Government guidance allows the capitalisation of certain types of qualifying revenue expenditure in-year, funded from the flexible use of 'in-year' generated capital receipts. It covers in-year capital receipts generated in-year, from 2016-17 to 2021-22 inclusive.
2. In-year generated capital receipts includes general fund receipts from the sale of general fund land and buildings. It also includes 'right to buy' (RTB) receipts from the sale of Council houses. These are remaining receipts that are also available to the Council, after taking account of the Council's other obligations in relation to RTB receipts generated in-year.
3. It is proposed that consideration be given to applying 'in-year' capital receipts generated, to fund the following qualifying capitalised revenue expenditure, in line with original DCLG guidance issued in March 2016, as follows :
 - i) *funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;*
 - ii) *driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;*
4. The time period relating to the above qualifying expenditure covers 2017-18 and the following 4 years. The original DCLG guidance covered the 2016-19 period, but this was subsequently extended by a further 3 years, to 2021-22, following the Autumn Statement announcement on November 17th, 2017.
5. The extent to which capital receipts will actually be applied in-year will take into account the following factors :
 - i) the amount of capital receipts actually generated in-year;
 - ii) the amount of qualifying capitalisable revenue expenditure in-year;
 - iii) the affordability of borrowing to fund the capital plan in-year, where current funding assumptions include use of in-year capital receipts to part fund the Councils annual general fund capital plan
6. The proposals set out in 3. above are 'in principle', and allow officers the 'flexibility' to consider a range of funding options in-year that meet the intended objectives set out in the Council's budget strategy update.
7. It is intended that officers will update members as part of the annual budget report to full Council each February, and finalised proposals for the flexible use of capital receipts to be incorporated into an annual early closedown review report for Cabinet consideration early April.

Risk No	Risk – Description of the risk	Management actions already in place to mitigate the risk
	The finances of the Council	
1	A failure to achieve the Councils savings plan impacts more generally on the councils finances with the necessity for unintended savings (from elsewhere) to ensure financial stability	<ul style="list-style-type: none"> • Established governance arrangements are in place to achieve planned outcomes at Cabinet and officer level • Escalation processes are in place and working effectively. • Alignment of service, transformation and financial monitoring. • Tracker developed which allows all change plans to be in view and monitored on a monthly basis • Programme management office established and resourced • Monthly (and quarterly) financial reporting
2	<p>Failure to control expenditure and income within the overall annual council approved budget leads to the necessity for unintended savings (from elsewhere)). The most significant of these risks are related to volumes (in excess of budget) of;</p> <ul style="list-style-type: none"> • Complex Adult Care services • Childrens Care Services • Educational high needs <p>& * Rent Collection impact of Universal Credit rollout (H R A) And in the longer term, the costs of waste disposal.</p>	<ul style="list-style-type: none"> • Significant service pressures recognised as part of resource allocation in 2018/19 and 2019/20 • Responsibility for budgetary control aligned to Strategic and Service Directors. • Examine alternative strategies or amend policies where possible to mitigate growth in demand or reduce costs • Utilise supplementary resources to cushion impact of cuts and invest to save. • Continue to lobby, through appropriate mechanisms, for additional resources • Proactive monitoring as Universal Credit is introduced
3	Above inflation cost increases, particularly in the care sector, impact on the ability of providers to deliver activities of the specified quality, and or impacting on the prices charged and impacting on the budgets of the council.	<ul style="list-style-type: none"> • Monitor quality and performance of contracts. • Be aware of underlying issues through effective communication with service providers and suppliers about likely impact on prices • Renegotiate or retender contracts as appropriate. • Ensure that budgets anticipate likely cost impacts • Seek additional funding as a consequence of government imposed costs

4	Making inappropriate choices in relation to lending or and borrowing decisions. leads to financial losses.	<ul style="list-style-type: none"> • Effective due diligence prior to granting loans and careful monitoring of investment decisions. • Effective challenge to treasury management proposals by both officers and members (Corporate Governance & Audit Committee) taking account of external advice
5	Exposure to uninsured losses or significant unforeseen costs, leads to the necessity for unintended savings to balance the councils finances	<ul style="list-style-type: none"> • Ensure adequacy of financial revenue reserves to protect the council financial exposure and managed effectively not to impact on the council essential services. • Consider risks and most cost effective appropriate approach to responding to these (internal or external insurance provision)
6	A future financial regime set by government causes a further loss of resources or increased and under-funded obligations (eg in relation to social care), with impact on the strategic plans.	<ul style="list-style-type: none"> • Monitor government proposals and legislation, and their impact on council and partner services. • Continue to lobby, through appropriate mechanisms, for additional resources e.g. Local Government Association (LGA) • Be aware of underlying issues through effective communication with citizens, partners, service providers and suppliers about likely impact on resources • Ensure that budgets anticipate likely impacts • Ensure adequacy of financial revenue reserves to protect the council financial exposure and managed effectively not to impact on the council essential services.
Community Impacts & Risks		
7	The council does not adequately safeguard children and vulnerable adults, as a result of increased complexity, referral volumes and a lack of service capacity to respond to the assessed need.	<ul style="list-style-type: none"> • Disclosure & Barring Service (DBS) checking, staff training, supervision, protection policies kept up to date and communicated. • Effective management of social work (and related services); rapid response to any issues identified and from any serious case review work. • Active management of cases reaching serious case review stage, and any media interest • Review of current practices following the child sexual exploitation in Rotherham and the emerging requirements. • Ensure that workloads are balanced to resources. • Staff and skill development to minimise dependence on key individuals. • Use of agency staff and or contractors when necessary • Ideal manager training • Development of market sufficiency strategy; consider approaches to support the development of the available service offer both locally and regionally.

		<ul style="list-style-type: none"> • Ensure competence of the Safeguarding Boards and that they are adequately resourced to challenge and improve outcomes • Ensure routine internal quality assessment • Take effective action after Serious Case Reviews • Effective listening to messages about threats from other parts of the council and partner agencies • Proactive recognition of Members role as “corporate parent” • Childrens Improvement Board to assist governance and quality improvement
8	The heightened national attention to Child Sexual Exploitation and historical abuse cases causes reputational issues, and resource demands to address consequential matters.	<ul style="list-style-type: none"> • Additional resources and expertise allocated to new and historical Child Sex Exploitation (CSE) work. • Risk matrix and risk management approach implemented with the police and partners. • Oversight of Council risks through the CSE Member Panel. • Understand relationship with the Prevent strategy, and issues linked to counter terrorism • Take steps per risk 1 to seek to avoid ongoing issues
9	Failure to address matters of violent extremism and related safer stronger community factors create significant community tension, (and with the potential of safeguarding consequences for vulnerable individuals.	<ul style="list-style-type: none"> • Prevent partnership action plan. • Community cohesion work programme • Local intelligence sharing and networks. • New status as a Prevent Priority Area provides funding for a Prevent Coordinator Post and enables the development of bids for additional funding. • Counter terrorism local profile. • Home Office funded Counter Extremism Community Co-ordinator role
10	Significant environmental events such as severe weather impact on the Council’s ability to continue to deliver services.	<ul style="list-style-type: none"> • Effective business continuity and emergency planning (including mutual aid) investment in flood management, gritting deployment plans. • Winter maintenance budgets are supported by a bad weather contingency. • Operational plans and response plans designed to minimise impacts (e.g. gully cleansing for those areas which are prone to flooding.)
11	The policy presumption of communities taking more responsibility for service provision does not deliver the hoped for outcomes, with the consequence that some community services will no longer be sustainable from the	<ul style="list-style-type: none"> • Reduced demand for statutory services • If the reduction is not realised at the pace set out, (in change plans) then those services that are directly impacted will need to identify this early, and to help in doing so, ensure that appropriate demand management and monitoring is put in place to record the levels of service take up. Remedial action should also be identified by those services. • Successful implementation of new service models

	resources available, with reputational and policy risks.	<ul style="list-style-type: none"> • Impact assessments for those services directly affected should be carried out to reflect the impact on citizens of losing a service as a consequence of the pace and scale of new service models not meeting demand. •
	The UK exiting the EU	
12	<p>The process of the UK exiting the EU lead to the following consequences and impact:</p> <ul style="list-style-type: none"> • Economic uncertainty impact on business rates and housing growth, with knock-ons to council tax, new homes bonus and business rate income. • The potential for increased cuts in core government funding (as a result of economic pressures) in the context of ongoing increases in demand for council services. • Rising inflation could lead to increased costs. And Interest rate volatility impacting on the cost of financing the council's debt. • The general uncertainty affecting the financial markets could lead to another recession. • An uncertain economic outlook potentially impacting on levels of trade and investment. • Uncertainty about migration impacting on labour markets, particularly in key sectors like health and social care • Potential impact on community cohesion, with increased community tensions and reported hate crimes. 	<p>These risks are largely addressed elsewhere in the Matrix</p> <ul style="list-style-type: none"> • Monitor government proposals and legislation, and their impact on council and partner services. • Continue to lobby, through appropriate mechanisms, for additional resources e.g. Local Government Association (LGA) • Be aware of underlying issues through effective communication with partners, service providers and suppliers about likely impact on prices and resources • Ensure that budgets anticipate likely cost impacts • Utilise supplementary resources to cushion impact of any cuts and invest to save. • Ensure adequacy of financial revenue reserves to protect the council financial exposure and that they are managed effectively not to impact on the council essential services • Local intelligence sharing and networks. • Prevent partnership action plan. • Community cohesion work programme • Service and financial strategies kept under review to keep track of developments related to the UK exiting the EU.

	Other Resource & Partnership Risks	
13	<p>Council supplier and market relationships, including contractor failure leads to;</p> <ul style="list-style-type: none"> • loss of service, • poor quality service • an inability to attract new suppliers (affecting competition, and to replace any incumbent contractors who have failed) • complexities and difficulties in making arrangements in respect of significant and long running major outsource contracts. 	<ul style="list-style-type: none"> • Avoid, where possible, over dependence on single suppliers; • More thorough financial assessment when a potential supplier failure could have a wide impact on the council's operations but take a more open approach where risks are few or have only limited impact. • Recognise that supplier failure is always a potential risk; those firms that derive large proportions of their business from the public sector are a particular risk. • Need to balance between only using suppliers who are financially sound but may be expensive and enabling lower cost or new entrants to the supplier market. • Consideration of social value, local markets and funds recirculating within the borough • Be realistic about expectation about what the market can deliver, taking into account matter such as national living wage, recruitment and retention issues etc. • Develop and publish in place market position statement and undertake regular dialogue with market. • Effective consultation with suppliers about proposals to deal with significant major external changes • Early consultation with existing suppliers about arrangements to be followed at the end of existing contractual arrangements • Realign budgets to reflect real costs • Commission effectively • Ensuring adequate cash flow for smaller contractors
14	<p>Management of information from loss or inappropriate destruction or retention and the risk of failure to comply with the Council's obligations in relation to Data Protection, Freedom of Information legislation and the General Data Protection Regulations (GDPR) leading to reputational damage, rectification costs and fines</p>	<ul style="list-style-type: none"> • Thorough, understandable information security policies and practices that are clearly communicated to workforce. • Effective management of data, retention and recording. • Raised awareness and staff training • Compliance with IT security policy. • Compliance with retention schedules. • Compliance with information governance policy. • Business continuity procedures. • Comply with new legislation around staff access to sensitive data.

		<ul style="list-style-type: none"> • Council has a Senior Information Risk Owner (“SIRO”) officer and a Data Protection Officer (DPO) who are supported by an Information Governance Board • Development of action plan to respond to GDPR requirements and resourcing requirements as appropriate • Increased awareness of officers and members as to their obligations
15	Health and safety measures are inadequate leading to harm to employees or customers and possible litigious action from them personally and/or the Health and Safety Executive.(and the potential of prosecution and corporate /personal liability)(and in particular issues of fire safety,)	<ul style="list-style-type: none"> • New Fire Safety Policy approved and being implemented Improved monitoring of fire risk • Prioritised programme of remedial works to buildings to tackle issues • Review work practices to address H&S risks • Monitor safety equipment • Improved employee training as to their responsibilities, as employees and (where appropriate) as supervisors
16	Exposure to increased liabilities arising from property ownership and management, including dangerous structures and asbestos, with reputational and financial implications.	<ul style="list-style-type: none"> • Routine servicing and cleansing regimes • Work practices to address risks from noxious substances • Property disposal strategy linked to service and budget strategy • Review of fire risks Develop management actions, categorised over the short to medium term and resource accordingly. • Prioritisation of funding to support reduction of backlog maintenance • Clarity on roles and responsibilities particularly where property management is outsourced.
17	A funding shortfall in partner agencies) leads to increased pressure on community services with unforeseen costs.	<ul style="list-style-type: none"> • Engagement in winter resilience discussions with NHS partners • Secure funding as appropriate • Consider extension of pooled funds • Accept that this may lead to an increase in waiting times • Strengthen partnership arrangements to ascertain whether other funding or cost reduction solutions can be introduced.
18	The risk of retaining a sustainable, diverse, workforce, including - aging and age profile - encouraging people to enter hard to recruit roles (which often have low pay, or challenging hours or tasks)	<ul style="list-style-type: none"> • Effective Workforce Planning (inc recruitment , retention issues) • Modernise Human Resources policies and processes • Increased accessibility to online training managers/ employees. • Selective use of interim managers and others to ensure continuity of progress regarding complex issues

	<p>- encouraging entrants to professional roles where pay is often below market levels. and ensuring that the workforce are broadly content, without whom the council is unable to deliver its service obligations.</p>	<ul style="list-style-type: none"> • Ensure robust change processes including Equality Impact Assessments (EIA's) and consultation.. • Understand market pay challenges • Promote the advantages of LG employment • Emphasise the satisfaction factors from service employment • Engage and encourage younger people through targeted apprenticeships, training, and career development
<p>19</p>	<p>National legislative or policy changes have unforeseen consequences with the consequence of affecting resource utilisation or budgets.</p>	<ul style="list-style-type: none"> • Reprioritise activities • Deploy additional resources • Use of agency staff or contractors where necessary • Development of horizon scanning service

Corporate Budget Timetable

Year	Date	Forum*	Milestone activity
2018	2 Oct / 10 Oct	Cabinet & Council	MTFP Update report
	Nov to Dec	General budget consultation	6 weeks consultation period
	Late Nov	Central Gov't	Autumn Budget
	Mid-Dec	Central Gov't	Provisional Financial Settlement 2019-20
2019	Mid Jan	Cabinet/Council	Update to members on the outcome of the provisional 2019-20 financial settlement Council Tax Base report 2019-20 HRA rent & service charge setting report Schools funding reports
	Mid to late Jan	Central Gov't	Finalised financial settlement 2019-20
	29 Jan / 13 Feb	Cabinet & Council	Council annual budget report

Sensitivity Analysis

MORE OPTIMISTIC SCENARIO	2019-20	2020-21	2021-22
	£m	£m	£m
Baseline Scenario – Budget Gap	7.0	16.0	20.9
More Optimistic Scenario – Changes to Budget Gap:			
<u>Funding Changes</u>			
No decrease in national funding – cash limited rates retention income	-	(2.5)	(4.9)
No decrease in rolled in Public Health Funding – cash limited	-	(0.6)	(1.2)
Fair Funding review outcome - 2% increase in funding	-	(1.9)	(3.7)
2% uplift per annum in business rates grants	(0.2)	(0.3)	(0.4)
Additional 300 properties per annum	(0.4)	(0.9)	(1.4)
Housing Benefit Grant lower reduction per annum (£100k v £150k)	-	(0.1)	(0.1)
	(0.6)	(6.3)	(11.7)
<u>Cost Changes</u>			
Pay Inflation 1% from 20-21 (vs 2%)	-	(1.6)	(3.2)
More Optimistic Scenario – Updated Budget Gap	6.4	8.1	6.0

MORE PESSIMISTIC SCENARIO	2019-20	2020-21	2021-22
	£m	£m	£m
Baseline Scenario – Budget Gap	7.0	16.0	20.9
More pessimistic Scenario – Changes to Budget Gap:			
<u>Funding Changes</u>			
Higher decrease in national funding – 5% reduction	-	2.1	4.1
Higher decrease in rolled in Public Health Funding – 5% reduction	-	0.6	1.2
Fair Funding review outcome – 2.5% decrease in funding	-	2.3	4.5
2% reduction per annum in business rates grants	0.2	0.3	0.4
Housing Benefit Grant greater reduction per annum (£300k v £150k)	0.2	0.3	0.4
No Pilot Extension for 2019-20	2.0		
New Homes Bonus – 5% decrease per annum	0.2	0.4	0.6
Reduction in other unringfenced grants – 2% decrease per annum		0.1	0.1
No additional Adult Social Care Monies		3.6	7.4
	2.6	9.7	18.7
<u>Cost Changes</u>			
Pay Inflation 1% from 20-21 (vs 2%)	-	1.6	3.2
More Pessimistic Scenario – Updated Budget Gap	9.6	27.3	42.8