

Bath & North East Somerset – Corporate Strategy and Medium Term Financial Strategy 2020/21 -2024/25

1. Purpose of the Strategy

The Corporate Strategy and Medium Term Financial Strategy (MTFS) provide a linked framework for strategic planning, articulating the organisation's key aims and ambitions and guiding our activities with medium term budget setting and planning. Together they explain the strategic direction and priorities for the Council, the financial context for the Corporate Strategy and the targets, as well as the financing mechanisms available to the Council to achieve this.

The MTFS does not detail how individual savings will be made, nor how categories of additional income will be achieved. Nevertheless it describes the scope of the work required, and taking place, to meet these targets together with some of the anticipated impacts.

The focus is on the next two years for financial planning purposes. However, there is significant uncertainty for next year and beyond because the national approach to funding local government is currently under review. The MTFS assumes that despite significant cuts in previous years funding constraints will continue and will therefore be guided by the priority areas of service delivery which the Corporate Strategy will set out.

The Corporate Strategy and MTFS also provide the background for consultation due to take place in autumn 2019.

2. Expected Outcomes from the Strategy

The objective of this document is to set the new administration's priorities to be delivered over the next four years for the Corporate Strategy within the context that enables the Council's budget setting and financial planning process to deliver a balanced budget over the next five years, but with specific focus on the next two years.

A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. B&NES will look to ensure sound plans are in place to balance the budget over the medium to longer term rather than year to year balancing.

The unprecedented scale of the financial challenge, the additional demands on the Council especially for Children's Services and Adult Social Care, and the scope to use new ways of working notably digital communications, all indicate the need for different ways of working and greater prioritisation of activity and spend. For some services, a different relationship with customers and communities may also be needed.

3. Executive Summary and Recommendations from the Strategies for Consideration

The overall aim of the Corporate Strategy and Medium Term Financial Strategy is to:

- Set out and deliver the Council's priorities within affordable and sustainable financial constraints;
- Ensure that the new administration's (Council's) strategic priorities are reflected in its capital programme and also that the capital programme is affordable;
- Ensure that cash flows are adequately planned so that cash is available when required and the Council can meet its capital spending obligations; and
- Set a sound financial planning framework to underpin the effective financial management of the Council.

There is a continued lack of clarity around future funding for Local Government. It was announced by the Chancellor in August that the three year Spending Review will be replaced by a one year review for 2020/21. The lack of any release of consultation papers before the summer recess indicates that it is becoming increasingly likely that changes to funding streams including Fairer Funding, Business Rate Retention, New Homes Bonus, and Better Care Funding will be delayed by another year. The estimates within the Strategy have not yet reflected this as the two year funding gap of £18.4m plus growth target of £2.8m are unlikely to change overall. However, it will be necessary to provide Members with an update once the changes are known.

Despite this uncertainty the Council still needs to plan its' finances for the medium to longer term and therefore the Strategy is based on best estimates at this stage. The Council has a good track record in savings delivery with £69m delivered between 2013/14 to 2018/19 and, a further £9m expected in this financial year – a total of £78m over seven years. These estimates show that the Council will need to find a further £36.8m (including the £3.4m already identified) in savings over the next five years. In essence the Council will need to reduce net spend by approximately 32% (11% of gross spend) over the next five years.

In the shorter term the profile of the savings shows a requirement of £21.85m over the next two years (£15.36m in 2020/21 of which there are planned savings of £3.44m, followed by £6.49m. A further target has been added of £2.76m to fund new priorities over the two year period. Therefore assuming the planned £3.44 can be delivered the target for **new** savings over the next two years is £21.17m

The current budget gap includes increases of 2.99% per annum in Council Tax for each year of the plan. No further increases in Adult Social Care Precepts have

been factored into the plan as there has been no further flexibility announced by central Government.

Financial Planning and Smoothing Reserves will only be utilised to smooth savings over the next two years while maintaining sufficient levels to meet key risks. Flexible capital receipts will continue to be utilised and will need to be accelerated to deliver ongoing savings at a faster pace.

Capital spending will focus on reviewing current provisional schemes and funding priorities while minimising the impact on the revenue budget.

As part of delivering this strategy plans are being put in place to engage with all elected members, partners and the public as part of the budget process for 2019/20 and the following years.

4. Corporate Strategy

The current Corporate Strategy, adopted in 2016, sets out the strategic direction for the Council to March 31st 2020. Given that this is coming to the end of its adopted timeline and the election of a new Council in May of this year, it is now appropriate for the Council to consider the development of a new Corporate Strategy.

This will set out the new Council and Cabinet's vision and focus for the next four/five years, guiding decision-making, business planning and resource allocation over that period. It will establish the context for the council's financial and budget strategy in the light of the new administration's priorities and be built around a four phase planning cycle, as below:

- Phase One – Plan, prioritise and decide
- Phase Two – Gear up and start delivery
- Phase Three – Continue to deliver and realise benefits
- Phase Four – Review and future planning

Whilst a programme of engagement on the draft Strategy and associated budget will be carried out in the autumn, some key themes are already beginning to emerge which reflect the new administration's priorities and which build on the strategic direction of the Council:

Addressing the Climate Emergency

This will include our plans to work with local communities to deliver the Council resolution agreed in March 2019 to declare a climate emergency, and for our area to become carbon neutral by 2030.

Work is already underway on this key priority including arrangements to assess the impact of council decisions on climate change, with a report due to be

presented to Council in October 2019.

Delivering for Local Residents

This will include delivering services in new ways and making the best use of digital approaches.

It will also include ambitions around securing more affordable and social housing and improving the quality of rented housing, as well as making our housing stock greener and tackling fuel poverty.

We will also be focused on reducing congestion and delivering significant improvements to public transport, walking and cycling facilities. Alongside the introduction of the Clean Air Zone, there are wider ambitions for a more pedestrian-friendly city centre and for reducing the impact of cars in residential streets through better traffic management and reductions in 'rat-running'.

Focusing on Prevention

This ambition will be developed in the context of the financial challenges facing the council, particularly the well-publicised and nation-wide issues facing local government relating to the costs of social care.

Social care services for both adults and children are key statutory functions of local authorities and whilst we must provide care for those who need it, we also want to find more ways to enable people to enjoy wellbeing and to live independently, which is a positive outcome for them as well as reducing demand and financial pressure for the Council.

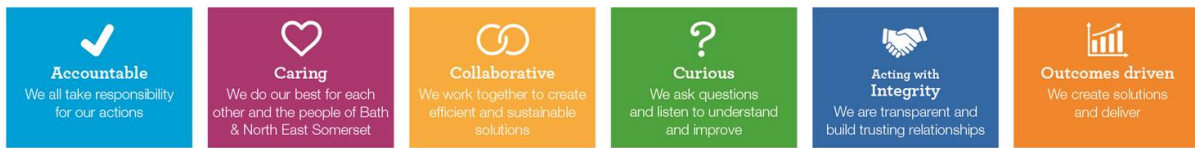
Giving People a Bigger Say

We can only deliver our strategy if the Council is transparent, open and listening. This will include promoting schemes such as Citizens Juries to involve local people in the decision-making process.

The Corporate Strategy is now being developed to set out further detail on the commitments related to each of these themes. This will inform the ongoing work programme of the Council over the life of the Strategy. A service planning process will be carried out in order to translate the Corporate Strategy commitments into identifiable actions for the coming year.

The Council's Core Values

Council and the CCG's staff, B&NES Councillors and the BaNES CCG Board have adopted the following core values as part of our vision and how we deliver our priorities:-



These values will set the framework for the development of our organisational culture. To underpin this, we are also developing a People Strategy to help with culture development, workforce planning and skills and training for staff.

The Medium Term Financial Strategy

The MTFS complements the Corporate Strategy by defining the financial framework within which these priorities will be delivered. It outlines the factors which are expected to drive future costs and sets out the funding projections and our strategy for addressing the funding gap. It supports the medium term policy and financial planning process at the heart of setting revenue and capital budgets.

The core principles underlying the MTFS are as follows:

- That the Council will seek to maintain a sustainable financial position over the course of the planning period and balance the budget on a two year rolling programme;
- That the Council will make provision for pressures, demographic changes, and inflation where appropriate with new priorities added only if “headroom” is achieved;
- The deployment of the Council’s limited resources will be focused towards essential services and those that contribute to the delivery of the Corporate Strategy
- Council tax increases have been included within the term of the MTFS to support essential services.
- New sustainable income opportunities are to be maximised wherever possible while maintaining current income streams through current economic uncertainty.

5. The Current Financial Position

2018/19 Outturn

The 2018/19 outturn reported an overspend position of £0.92m to Cabinet in July 2019 as follows:-

Portfolio	Revised Budget £'m	Outturn £'m	Variance £'m
Leader	2.28	2.29	0.01
Finance & Efficiency	(0.37)	(0.31)	0.06
Transformation & Customer Services	5.83	6.09	0.26
Adult Care, Health & Wellbeing	61.72	60.74	(0.98)
Children & Young People	29.20	30.96	1.76
Development & Neighbourhoods	19.17	19.22	0.05
Economic & Community Regeneration	(4.92)	(5.97)	(1.05)
Transport & Environment	(1.37)	(0.56)	0.81
Total	111.53	112.46	0.92

Budget 2019/20

The 2019/20 net budget of £113.10m was approved by Council in February 2019. Budget monitoring to the end of July, reflecting the new Cabinet Portfolio's, showed a projected overspend of £1.68m against the revised budget of £113.57m as shown below:-

Portfolio	Revised Budget £'m	Forecast Year End Actual £'m	Variance Over / (Under) £'m
Leader	(0.36)	(0.41)	(0.05)
Resources	8.03	10.02	1.99
Adult Services	62.45	62.45	-
Children's Services	28.71	29.74	1.03
Climate Emergency & Neighbourhood Services	15.92	15.93	0.01
Transport Services	(0.58)	0.01	0.59
Housing, Planning & Economic Dev.	3.27	3.19	(0.08)
Community Services	(3.87)	(4.29)	(0.41)
Smoothing reserve to be allocated		(1.40)	(1.40)
Total	113.57	115.24	1.68

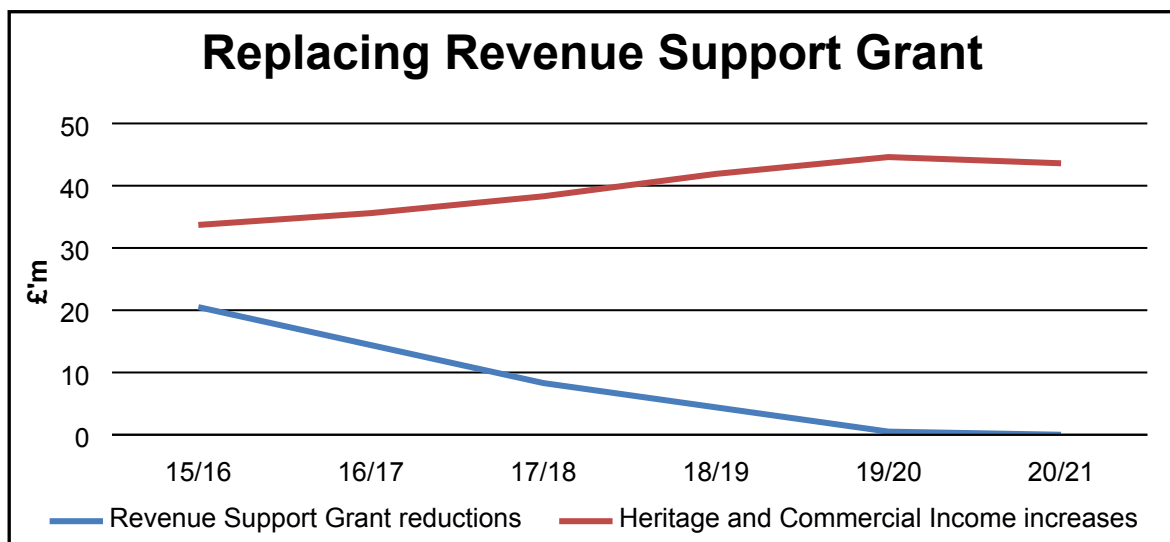
The figures show an upturn in demand and financial pressures especially in Children's services and Commercial Estate. It also highlighted that a continued focus is required to delivering the savings that were agreed as part of budget setting to

bring spend back in line with the budget. The Cabinet member for Resources has set an objective for 2019/20 to achieve a balanced budget with no drawdown from reserves. To achieve this Directors will develop in year recovery plans, including:-

- Holding / deleting vacant posts.
- Centralising and reducing discretionary spend.
- Consider Voluntary Redundancy requests to enable agreed staffing savings.

Analysis of Current Position

Local Government has suffered from continued reductions in funding – the £20.5m received in Revenue Support Grant has now been completely removed. The table below shows how the Council has grown its' main income streams from heritage and commercial estates but there is limited ability to keep growing these income streams because of limits on visitor capacity and the current difficulties within the retail sector. Therefore, maintaining the levels currently budgeted for is becoming an increasing priority-



Drivers of Demand

The economy

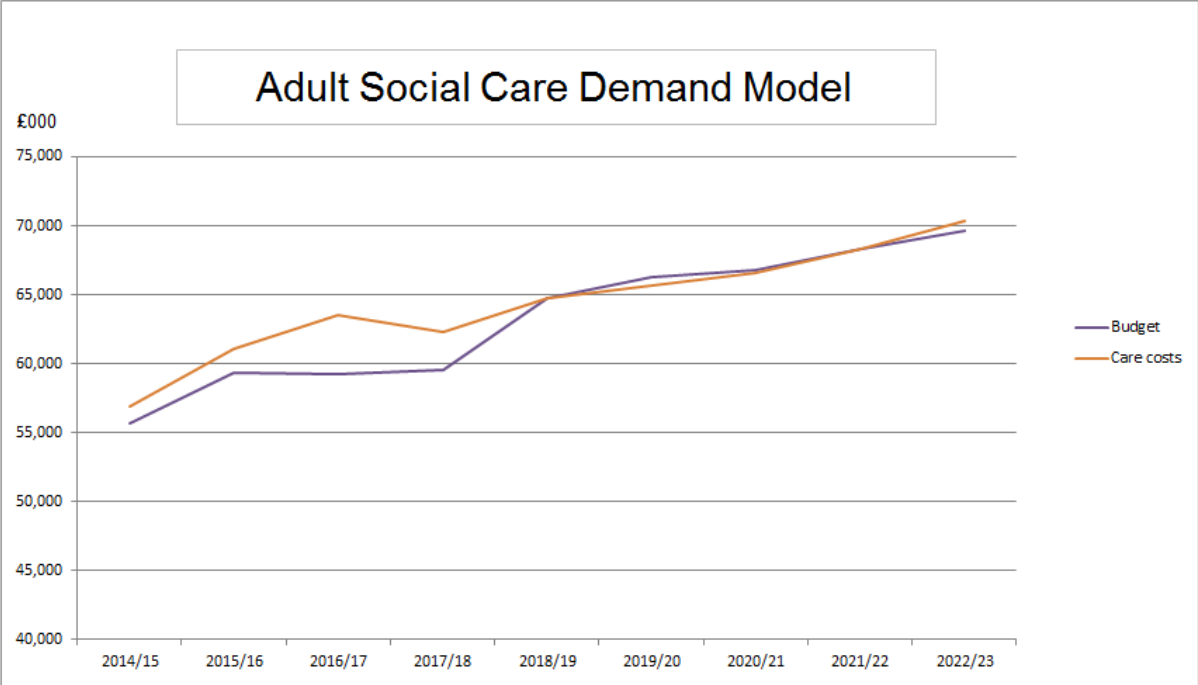
The Office for National Statistics (ONS) estimates that the UK economy grew by 1.4% in real terms in 2018. The economic effects of the UK's imminent departure from the European Union possibly without a "deal" remain highly uncertain with a 0.2% reduction in growth for quarter 2 of 2019 (the first reduction since 2012). It is generally accepted that a recession is occurring if negative growth is recorded over two consecutive quarters. A recession would affect demand for public services and also the resources available to the Council to deliver those services, particularly business rates retention, commercial estate, car parking, and heritage income, with increasing requirements for Council Tax Support if unemployment increases. It is increasingly important for the Council to work with partners, such as the West of England Combined Authority (WECA), and the Local Enterprise Partnership (LEP), to

make the most of the area's opportunities for local and sub-regional economic stability.

Demand Led Services

The Council has sought to set realistic and deliverable budgets through the MTFs and budgeting process. Significant resource has been added to Adult and Children's services over the last few years whilst both services have delivered other savings and efficiency gains.

The challenges facing adult social care services (ASC) nationally as well as locally include factors such as increasing demand, capacity and market stability issues in the independent sector and the impact of year-on-year savings requirements. Nationally, the government has acknowledged that the growing demand for adult social care services is placing increasing pressure on council budgets. The long awaited green paper on adult social care has yet to be published although the government has provided additional temporary funding of £0.73m in 2019/20 for Winter Pressures and £1.028m through the Improved Better Care Fund (iBCF). In addition, councils with social care responsibilities were able to levy a precept on adult social care up to 2019/20. The total additional income generated from the precept is £6.6m per annum. The MTFs allocates £17.3m for demographic and contract inflation pressures within ASC over the next five years. The following graph shows the impact of demographic and inflationary growth in ASC on the budget and outturn position since 2014/15:-



The Council has embarked on an ambitious savings programme of service transformation in adult services, much of this integrated with local health service

provision. The programme, being delivered in partnership with Virgin Care, will focus on:

- Managing the Councils budget to meet demand needs without overspending through robust needs assessment and care planning.
- Strengthen brokerage and contract monitoring to ensure payments to providers are made in a consistent and fair manner.
- Learn from our neighbours in improving services delivery whilst delivering savings.

The number of children looked after (LAC) by the Council has risen by 40% in the past 5 years to 190 in 2018/19 (although this higher level is in line with similar authorities). The numbers continue to increase with 192 LACs recorded at the end of June as well as a nearby private residential unit for children with high needs closing putting significant pressure on services and budgets. The Government is aware of the pressures of Children's services on local authorities (91% of Local Authorities overspent on Children's Services in 2017/18). Additional temporary government funding of £1.25m was allocated to Children's Services in 2019/20. The MTFS allocated £5.8m for demographic and contractual inflationary pressures within Children's Services over the next five years.

Whilst we recognise the need to provide appropriate care and placements to meet the needs of children and young people we will continue to review the models of care, opportunities to bring in external investment and good practice, and to scrutinise individual needs and placement costs in order to mitigate these financial pressures as far as possible.

Significant increases in children and young people with SEND are also adding to the pressure on Council resources. Between January 2013 and January 2017, there was a 90% increase in locally supported children and young people with a Statement or EHCP who have a primary need diagnosis of autistic spectrum disorder, the largest volume increase of all the primary need types (increased from 146 to 277). The second biggest rise has been seen with those who have a primary need classified as Social, Emotional and Mental Health, up from 117 to 200 during the same period.

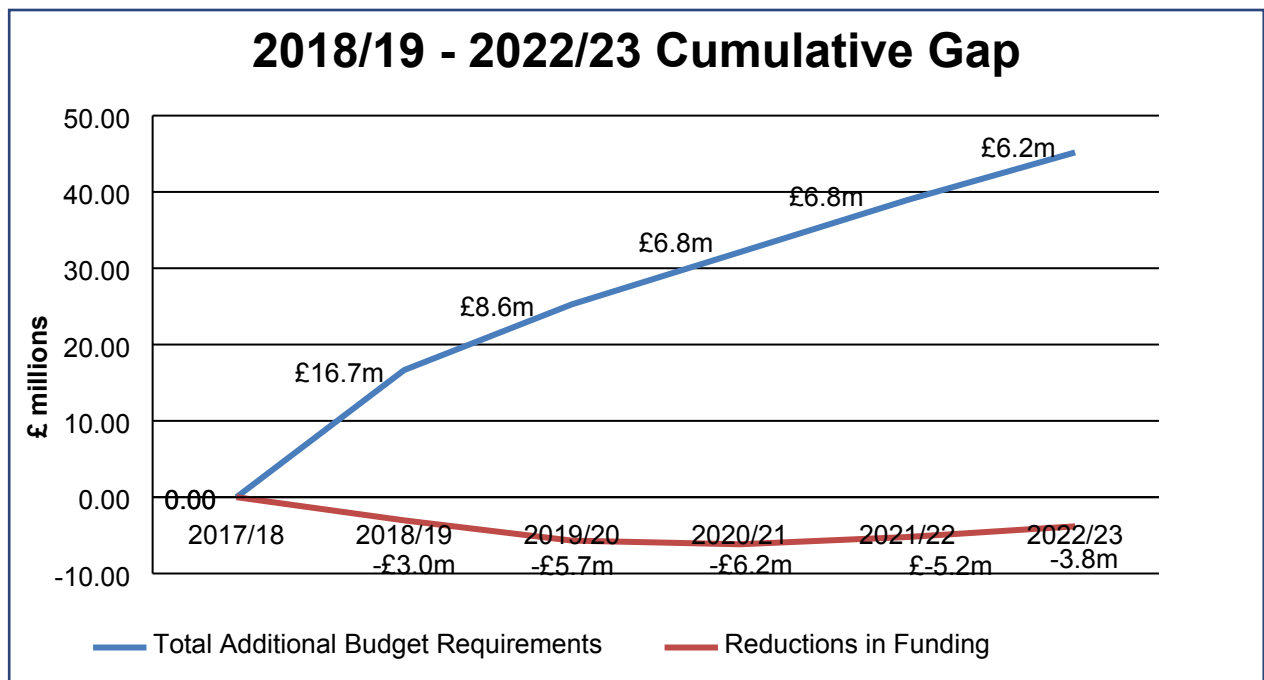
The costs of SEND should be absorbed within the High Needs Block of Dedicated Schools Grant (DSG) received from the Department of Education. However, this has been insufficient to meet demands. The Council therefore has had to provide up to £2.3m annually as a corporate contingency that is held in reserve to fund this deficit while plans are underway to reduce costs through negotiations with the Schools Forum, lobbying Government, and allocating capital funds to create more specialist places in local mainstream schools. The creation of additional local capacity will enable families to access appropriate specialist support more locally, which fits with parental preferences and at the same time will reduce the financial impact on the Council through the use of more remote and independent provision, together with the associated transport costs. Whilst this provision should start to come on stream from next year, it is likely to take 4-5 years before it substantially reduces the levels of expenditure.

6. Financial Outlook

Currently the MTF5 shows a projected budget gap for each year of the plan as follows:-

Indicative Budget Forecast	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
Estimated Base Budget	113.10	126.65	124.44	128.06	131.96	135.03
Estimated Funding	(113.10)	(113.63)	(117.95)	(122.44)	(127.02)	(128.29)
Annual Funding Gap	-	13.02	6.48	5.62	4.94	6.74
Savings Already Agreed	-	3.44	-	-	-	-
Adjustments for one-off grants	-	-2.34	-	-	-	-
Remaining Funding Gap	-	11.92	6.49	5.62	4.94	6.74
Additional Requirement to fund new priorities	-	1.79	0.97			
Savings Target	-	13.71	7.46	5.62	4.94	6.74
Cumulative Target	-	13.71	21.17	26.79	33.73	38.47

The funding gap over the medium term can be analysed further to identify additional pressures on expenditure and the impact of funding reductions in income as follows:-



Indicative Budget Forecast

The detail of the budget gap is shown in the table below and outlines additional cost pressures and reduced funding:-

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Budget Requirement (Previous Year)	113.10	113.63	117.96	122.44	127.02
Once-Off items from previous year	-1.44	0.00	0.00	0.00	0.00
Pay inflation	2.16	1.59	1.53	1.49	1.26
Pension Contributions	0.61	0.61	0.61	0.61	0.61
Demographic Growth & Increase in Service Volumes	3.31	3.31	3.31	3.31	2.96
Contractual Inflation	1.82	1.91	1.96	1.91	1.88
Budget Pressures / Rebasing	2.53	0.08	0.00	0.00	0.00
New Priorities - not yet added pending headroom	0.00	0.00	0.00	0.00	0.00
Provision for amber rated savings	1.00	0.80	0.80	0.80	0.80
Increase(-)/ Reduction in New Homes Bonus Grant	1.93	0.91	1.39	0.90	0.00
Capital Financing	1.61	1.61	0.50	0.50	0.50
Draft Budget Before Savings	126.65	124.44	128.06	131.96	135.03
Savings Proposals					
Remove one-off grants in 2019/20	-2.34				
New and Revised Savings Plan	3.44				
Estimated Savings Required	11.92	6.49	5.62	4.94	6.74
Budget Requirement	113.63	117.95	122.44	127.02	128.29
Funding of Budget Requirement					
Council Tax	89.01	92.75	96.64	100.60	101.61
Adult Social Care Precept 0%	6.69	6.76	6.82	6.89	6.96
Business Rate Retention incl Revenue Support Grant at 75% retention	17.93	18.45	18.98	19.53	19.72
Funding of Budget Requirement	113.63	117.96	122.44	127.02	128.29

The forecast includes the following cost pressures and assumptions:-

- **Pay Inflation** – Estimated 2.75% increase in 2020/21, and a further 2% per annum from 2021/22; The Trade Unions are currently requesting a 10% increase for 2020/21, ongoing negotiations will be monitored to see if any update is required.
- **Pension Costs** – Allowance of 1% per annum from 2020/21 arising from the triennial Pension Fund revaluation impact on Employer's pension contribution rates, which will be finalised in the late Autumn;
- **Demographic Growth & Increase in Service Volumes** – Additional demand from new placement and market pressures in Adult & Children Social Care;
- **Interest Rates** - Continued very low rates of interest of around 1% per annum for treasury management cash investments. The Council will maintain a minimum cash policy;
- **Inflation** – CPI projections for the coming years are expected to be 2.0%. No general inflationary provision included – specific contractual inflation has been provided and identified on a limited basis as growth within service areas based on specific service circumstances and contractual commitments;
- **Budget Pressures / Rebasing** – Provision for rebasing 2019/20 ongoing revenue spend and savings pressures;
- **Capital Spending** – an allowance has been made to fund a minimal number of new schemes given current financial constraints;
- **Borrowing** – longer term borrowing costs have been factored into the MTFS however the authority will continue to optimise the use of cash balances subject to market conditions and the overriding need to meet cash outflows;
- **New Priorities** – will be developed with the new administration as part of the Corporate Strategy and have not yet been factored into the plan. These will only be considered once the gap has been funded. The new priorities will require targeted headroom of £2.76m over the first two years of the plan.

7. Outlook for Government Grant Funding

During 2016, the Council provided an Efficiency Plan submission to the Government as part of a national scheme, to secure the basis of a 4-year financial Settlement through to 2019/20. This was agreed by the Government and provides some protection to the Council against any additional funding reductions in revenue support grant over this period.

In 2018 the Government issued a consultation regarding future funding for Local Authorities (LA's) – A Review of Local Authorities Relative Needs and Resources. The review has the aim of revising and updating the distribution of funding between LA's. This review does not measure the level of funding required for Local Government as a whole its objective is purely to assess the relative needs and pressures of authorities to ensure that the distribution of funding between authorities is fair.

B&NES continues to lobby for the following areas to be included in any revised funding methodology:-

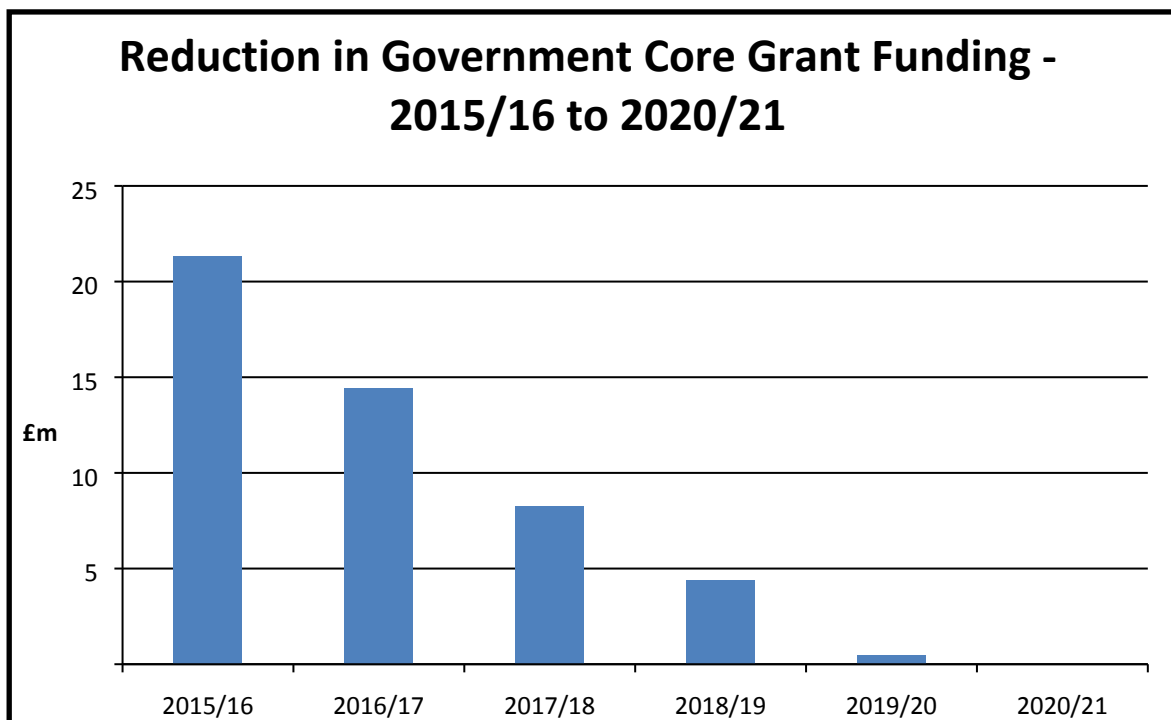
- funding for student households;

- ability to introduce a Local Tourism Levy;
- full cost recovery of planning fees - we will be engaging further on how best to compensate Bath & North East Somerset for these costs;
- funding for Special Education Needs and Disability;
- charges for listed building applications;
- removal of the NDR exemption for Listed Buildings;

The Government's timetable outlined that that the new methodology would be used to distribute funds from 2020/21 onwards. However, with the recent announcement of a one year spending review on the 4th September it is looking increasingly unlikely that this timetable will be met and that some or all of the current funding streams will continue for a further year rather than the four-year settlement outlined in the Government's consultation paper on the 24th July 2018. Depending on which grants/funding are delayed the overall two year position outlined in this report continues to be a realistic estimate of the financial gap. It will be necessary to report further updates to Cabinet when further clarity can be obtained. This Strategy currently estimates the following impacts on the grant headings below:-

Revenue Support Grant

The strategy assumes that the remaining £0.49m Revenue Support Grant for 2020/21 will be removed.

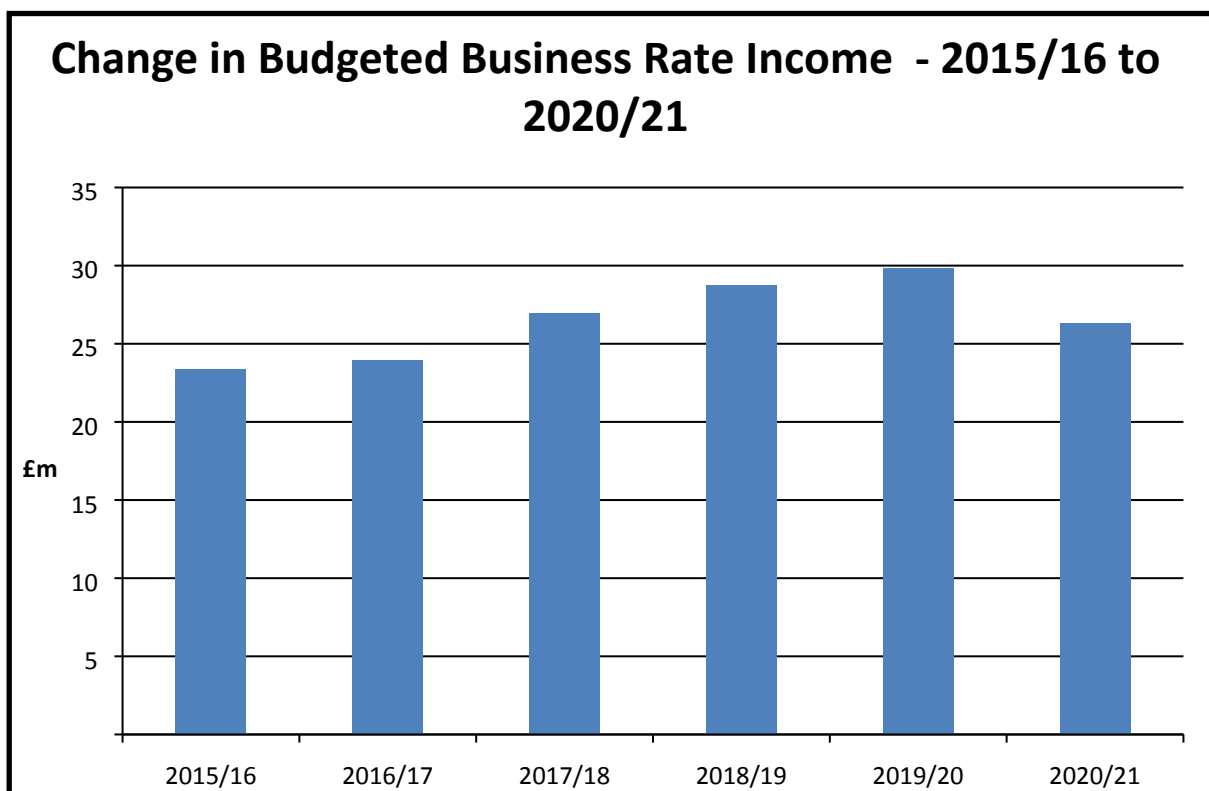


New Homes Bonus

The 2017/18 Settlement announced changes to the funding arrangement for the New Homes Bonus (NHB) with the bonus reducing to 4 years in 2018/19. The 2019/20 consultation paper stated that New Homes Bonus would cease from 2020/21 and will be replaced with a different incentive. For financial planning purposes the grant has been phased out between 2020/21 and 2023/24. No further information has been received to date regarding the future or replacement of NHB.

Retained Local Business Rates – 100% Business Rate Retention Pilot

In 2016 the Government announced that it was introducing pilot schemes for 100% business rate retention from 2017/18. The Government has asked WECA and the WECA unitary authorities for information regarding the impact the 100% pilot has had on the authorities. We currently have no further information and therefore have assumed that the Council will join the new 75% retention model 2020/21 resulting in an estimated £3.6m reduction in funding for 2020/21. The strategy also assumes that a baseline reset will occur in 2020/21.



(Note – the chart shows budgeted income rather than actual which is at risk from appeals etc)

As part of the proposed Budget, reasonable assumptions have been made for likely levels of future Business Rate income, together with specific provisions for appeals

and growth. Any surplus or deficit on the Business Rate Collection Fund will be transferred to an earmarked reserve for consideration as part of the Business Rates calculations for future years.

Schools Funding

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

As schools convert to academies the DfE take back the element of DSG payable to the local authority in order to make payments direct to the academies. It is estimated that over 85% of schools will have converted to academies by September 2020 and that all schools will develop plans to convert in the coming years.

With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG. The Council currently holds £2.3m in reserves to meet any shortfalls once the schools contribute, one-off central Government grants are taken into account and any underspends within other useable DSG blocks are utilised.

The schools contributions are limited to 1 year under the NFF regulations and therefore further consultation is currently underway to gain a transfer from the Schools Block in 2020/21. The Capital Programme has been providing funding to provide additional SEND places in mainstream schools.

When schools convert to academies their reserves transfer to them and therefore school reserves have reduced significantly as a result reflecting that only 15% remain as maintained schools.

Adult Social Care Support Grant

The Government has allocated £0.73m to B&NES to help reduce winter pressures on the NHS. The use of the funding is aimed at reducing Delayed Transfers of Care (DTC) and authorities are required to meet certain conditions for its use. In addition a further one-off grant of £1.25m was allocated to relieve pressures in ASC or Children's Services. No further grant for 2020/21 has been announced.

Adult Social Care Green Paper

The Adult Social Care Green Paper is still awaited. Although the Government recognises the pressures of ASC on Councils there is no current timeline for its publication.

Better Care Fund

The Better Care Fund is intended to incentivise the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, in particular by reducing avoidable hospital admissions and facilitating early discharge from hospital. The Government announced that the Better Care Fund was under review for 2020/21 but no further announcements have been made to date.

The Council and CCG's Better Care Fund has a minimum CCG funding contribution of £12.067m in 2019/20. The Strategy currently estimates that funding will continue at current levels given the known pressures on both the Council and the CCG.

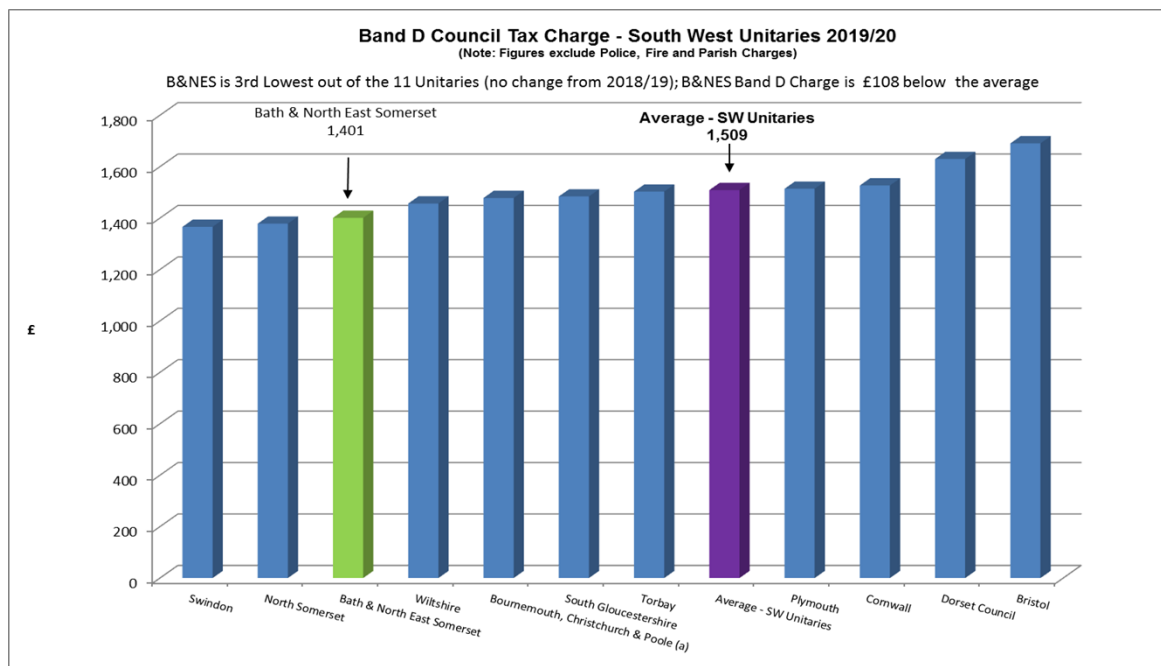
In addition to the minimum contribution the Chancellors budget announced 3 years of grant funding for adult social care from 2017. For 2019/20 the local allocations of one-off funding was £4.03m. This funding is pre-committed through the agreement of the Better Care Fund plan and is helping to protect current Social Care spending levels and meet the national conditions for the BCF plan including improving delayed transfers of care (DTC) performance. Whilst there have been no further funding announcements it is assumed that this level of funding will continue beyond 2019/20.

Both the Council and CCG would face significant funding challenges in the event that the £4.03m grant funding does not continue in 2020/21 as this is funding recurring care placements and helping enable hospital discharges into Social Care. The impact of this would need to be jointly managed with the CCG through the Health and Care Board that governs the Better Care Fund spending plan.

8. Council Tax

Comparison of 2019/20 Council Tax

The chart below shows how B&NES compares (3rd lowest) to other South West unitary authorities:-



Council Tax Precept

The current funding gap in the MTFS assumes **2.99% increase** in council tax each year. This assumes that the Government's referendum principles continue to allow increases of up to 3% before a referendum is required.

The Government has factored 3% increases into each authority's "Spending Power" and funding figures.

Adult Social Care Precept

The Government recognised some of the pressures facing Adult Social Care (ASC) authorities, providing for a continuation for a specific increase in the local council tax precept ringfenced to ASC. B&NES approved an increase of 2% in 2017/18, 3% in 2018/19, and 1% in 2019/20. There has been no further indication from central Government to extend the precept beyond 2019/20 and therefore no further increases have been factored in at this time.

Long Term Empty Properties

Properties that are empty for more than two years are currently liable for a surcharge of 50%. The Government has passed legislation to enable Local Authorities to increase this to 100% surcharge. This premium is important as an incentive to bring back Long Term Empty properties back into use. Proposals may be brought forward for consideration as part of the budget setting proposals for 2020/21.

9. Strategy for Savings

Current estimates are that £36.8m savings will now be required over the next five years including savings already approved.

The strategy has outlined that the savings will be reviewed on a two year rolling profile which means that a target of £21.17m has been set assuming the £3.44m already planned is delivered and including a 15% target for new priorities. This strategy aims to smooth the savings required to increase the time needed for assessment and consultation of those savings plans.

The Council has become leaner and made significant staffing savings over the last two years but given the scale of the challenge faced, the Council needs to establish a significant transformation reserve to invest in innovations that will fundamentally change services and drive out cost and increase efficiency at pace. Current reserves are insufficient to support the scale of “one-off” investment required over the next 2-3 years if the council is to fundamentally shift its models of operation, maximise efficiency and deliver the commitments of the administration. We do have a model for this which works but it is insufficient to the scale of the challenge.

Work will be undertaken in the autumn to quantify the required level of resources to fund this transformation work that will inform a review of assets to be sold to accelerate the delivery of savings. Linked to the above there would be the need to invest in a Change/Transformation Office to bring all of the current and future savings and change projects into a single programme with a focus on ensuring delivery. A Change/Transformation Board will also be established chaired by the Cabinet Member for Resources/Deputy Leader which would ensure accountability of both Cabinet Members and Directors for the delivery of their elements of the programme.

In addition to this savings plans will be developed through:-

- Reducing service costs for services costing above average based on VfM assessment – waste and recycling, highways, and ASC to be reviewed for 2020/21;
- Priority based resourcing to develop options to reduce spend by reducing or stopping services but maintaining essential services;
- Maintain commercial income to increase discretionary charges only where appropriate/ full cost recovery;
- Shared services where appropriate/ right sizing with our partners e.g CCG and WECA;
- Targeted capital spend to reduce borrowing costs;
- Managing Demand (and the processes surrounding demand);
- Contract Savings - review of all contract spend to reduce costs.

10. Capital Programme

The Prudential Code for Capital Finance in Local Authorities was updated in December 2017. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

It required authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financial implications and potential risks to the authority.

To ensure that the capital programme remains affordable the following approach will be taken:-

- A review all existing provisional schemes and simplify, reduce, pause or stop as necessary;
- Minimise new schemes except those that meet corporate strategy priorities;
- Agree an affordable limit for new schemes requiring corporate borrowing;
- Ensure adequate investment in assets supporting key service provision (including meeting health and safety requirements or replace obsolete or inefficient assets/equipment);and
- Deliver or work with partners to deliver high priority government funded programmes and WoE programmes where they meet corporate priorities.

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

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

Items for **Provisional Approval** will require either a further Officer decision and in some cases a formal Executive decision for Full Approval. The budget estimates for schemes shown for Provisional Approval are therefore included on an indicative basis, and as an aid to planning.

The Capital Programme will retain narrative only reference to pipeline projects and grant funding in early stage progression. These items will require further decision to incorporate into the programme at a later date, in line with the delegations outlined in the February Budget report.

The capital programme is aligned with the Community Infrastructure Levy allocations agreed for the coming financial year.

The following shows the capital programme approved in February 2019 as part of budget setting:-

Cabinet Portfolio:	Budget 2019/20 £'m	Budget 2020/21 £'m	Budget 2021/22 £'m	Budget 2022/23 £'m	Budget 2023/24 £'m	Total £'m
Development & Neighbourhoods	8.063	0.000	0.000	0.000	0.000	8.063
Economic & Community Regen.	28.582	31.456	7.582	3.321	1.281	72.222
Transport & Environment	10.252	0.239	0.110	0.000	0.000	10.601
Children & Young People	2.692	0.000	0.000	0.000	0.000	2.692
Finance & Efficiency	28.910	0.000	0.000	0.000	0.000	28.910
Transformation/ Customer Svcs	0.087	0.000	0.000	0.000	0.000	0.087
Capital Contingency	0.005	0.000	0.000	0.000	0.000	0.005
Total	78.591	31.695	7.692	3.321	1.281	122.579

Capital Schemes For Provisional Approval (Subject to)

Cabinet Portfolio:	Budget 2019/20 £'m	Budget 2020/21 £'m	Budget 2022/22 £'m	Budget 2022/23 £'m	Budget 2023/24 £'m	Total £'m
Development & Neighbourhoods	24.346	1.816	0.971	2.055	0.408	29.596
Economic & Community Regeneration	24.356	9.943	10.792	0.985	0.635	46.711
Transport & Environment	3.529	7.056	5.924	5.204	4.829	26.542
Children & Young People	22.464	6.645	0.000	0.000	0.000	29.109
Finance & Efficiency	16.052	2.325	2.250	2.310	0.670	23.607
Transformation/ Customer Svcs	3.825	0.068	0.068	0.000	0.000	3.961
Total	94.571	27.853	20.005	10.554	6.542	159.525
Grand Total	173.162	59.548	27.697	13.875	7.823	282.105

The current capital programme that was approved in February 2018 was funded as follows:-

Financing	Budget 2019/202 0 £'m	Budget 2020/202 1 £'m	Budget 2022/20 22 £'m	Budget 2022/20 23 £'m	Budget 2023/20 24 £'m	Total £'m
Grant	56.346	21.874	10.597	6.805	5.829	101.451
Capital Receipts/RTB	8.666	3.495	0.791	6.135	0.635	19.722
Revenue	1.355	0.000	0.000	0.000	0.000	1.355
Borrowing	96.974	33.615	16.159	0.835	1.329	148.912
3rd Party (inc S106 & CIL)	9.822	0.564	0.150	0.100	0.030	10.666
Total	173.162	59.548	27.697	13.875	7.823	282.105

Note this does not include slippage from 2018/19 which totalled £29.0m.

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

- £400k towards improvements to the A39 / B3116 'Two Headed Man' junction;
- £700k towards improvements to the A39/A368 'Bence's Garage' junction;
- £40k towards improving cycle networks, including employer grants to encourage cycling to work;
- Investment of £10m in the area to establish a new Institute for Advanced Automotive Propulsion Systems;
- Funds to develop the road improvements schemes at Freezing Hill Lane and Hicksgate;
- £3.3m "Love our High Street" initiative;
- £43.3m towards Bath Quays enabling infrastructure works (Bath Quays North, Bath Quays South and Bath Quays Bridge).

These are funded from the additional investment funds received by the WECA as part of the devolution arrangements and reflected accordingly with the Councils revenue and capital budget proposals.

An allocation of up to £0.5m in revenue to support new schemes has been factored into each year of the Medium Term Financial Strategy. This enables high priority schemes to be approved as well as considering the impact on the revenue budget. The more detailed capital strategy will be updated for approval as part of the budget in February 2020.

Capital receipts will be used flexibly and further adjustments may be made as part of setting the budget for 2020/21 to replace some of the capital receipts with borrowing to ensure the first call on any receipts is to maintain flexibility within revenue. The current programme will continue to be reviewed to ease this financial impact.

The intention is to take a measured approach between borrowing in the current market climate and the utilisation of internal cash flow wherever possible. Borrowing has been factored into the strategy to ensure that the authority can meet its future borrowing obligations as well as taking advantage of current low interest rates. The decision on the timing of new borrowing will still be driven by market factors, particularly movements in interest rates to provide overall value for money to the Council

Capital Risk Contingency

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

- Individual major projects within the capital programme hold their own contingency in accordance with good project management practise to meet unavoidable and unforeseen costs;
- The capital programme includes a funded corporate risk contingency which will be maintained at £2m;
- The corporate risk assessment on which the general reserves target is based includes an element in the context of the capital programme based on the risks of the current programme.

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

Minimum Revenue Provision (MRP) Policy

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve a MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy was updated in February 2019 and there are currently no revisions proposed.

11. Releasing Capital Receipts to Fund Savings Projects

Central Government outlined in December 2015 that local authorities will be able under certain circumstances to utilise capital receipts for revenue expenditure for certain purposes. These include for example:-

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Sharing Chief-Executives, management teams or staffing structures;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or regional procurement hubs;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, selling services to others).
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery;
- Improving systems and processes to tackle fraud and corruption;

Further guidance was released in March 2016 which outlined a simpler approach to allow authorities to utilise receipts if the spend resulted in an ongoing saving. The guidance is clear however that expenditure should be once-off and the flexibility cannot be utilised for ongoing expenditure.

The Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming and subsequent years.

The strategy in future years will monitor the performance of projects approved in previous years. The current flexibility is in place until March 2022 and therefore the budgets for 2020/21 and 2021/22 will continue to utilise this wherever possible as part of budget planning. The Strategy does not currently require further amendment and will be updated for approval as part of budget setting in February 2020.

12. Earmarked and Non-Earmarked Reserves

Earmarked Reserves are set aside for specific purposes whereas Non-Earmarked Reserves are retained to meet unforeseen risks. A regular review of financial risks to

assess the optimum levels of balances and reserves will be reported to members annually. This ensures that the authority has sufficient funds to meet its key financial risks. The strategy remains that balances remain at a level that covers these key risks.

The current strategy for Non-Earmarked Reserves remains unchanged and will continue to be based on a financial risk assessment. The current target is to retain Non-Earmarked reserves within the range of £11.9m to £13.1m. The reserve is currently expected to remain within this range to meet key financial risks.

A review has taken place of key reserves as part of the overall MTFs to assist with medium to long-term financial planning and to smooth the impact of the quantum of savings required in each year. The management of these reserves is fundamental to the delivery of this strategy. The following table shows each of those key reserves and the expected balance at the end of the 2019/20 financial year:-

	Unallocated Balance as at 1/4/19 £'m	Projected Use in Year £'m	Current Estimated Balance 31/3/20 £'m
Revenue Budget Contingency	3.05	2.04	1.01
Financial Planning and Smoothing Reserve*	5.73	1.50	4.23
Transformation Investment Reserve *	2.15	1.85	0.30
Restructuring & Severance Reserve	2.18	0.00	2.18

Note * Use of these reserves are in line with budget plans agreed in February 2019

The Budget Monitoring Report presented to Cabinet in September outlines that if the estimated over budget of £1.68m were to occur then £1.68m would need to be found from the Revenue Budget Contingency Reserve. This will need monitoring closely as there will be a requirement to top up this reserve for 2020/21 to £2.0m to meet budget risks next year. This will be found from reviewing all other reserves and also the use of any one-off income such as council tax surplus. The remaining reserves outlined above are being utilised as planned in the 2019/20 budget.

Using Reserves to Smooth Savings Targets

The strategy requires flexibility around capitalising costs and the flexible use of capital receipts to fund redundancy, transformation, and ICT costs where appropriate to free up reserves.

13. Reviewing the Strategy

This strategy will naturally span the life of the Council Plan but will be reviewed annually to take into account changes within and external to the organisation. In more uncertain times the strategy will be reviewed more frequently.

14. Public/Stakeholder Consultation

Planned public consultation will take place in the autumn period 2019.

Planned scrutiny of the MTFs through the Policy Development and Scrutiny Panel is planned for November 2019 with savings being scrutinized in January 2020.

15. Risks to the Medium Term Financial Strategy

The Strategy and Plan make regular risk predictions. The key risks to the plan are currently seen as:

Risk	Likelihood	Impact	Risk Management
Further demands on services continue to escalate beyond current estimates	Possible	High	Ongoing monitoring of spend and controls. Ensure reserves are sufficient to manage in-year pressures
Pay awards will be higher than estimated	Possible	Medium	Unions have currently requested a 10% increase. Increased provision to 2.75% for 2020/21 and will need to ensure that reserves are sufficient to meet any higher levels.
Interest rates reduce further impacting on investment income	Unlikely	Low	Rates are likely to stay lower for longer rather than decrease although the impact on interest rates post Brexit remains a risk. A prudent view has been taken within the MTFP and cash is being utilised for purchase of assets while rates are low.
Interest rates increase	Unlikely	Medium	A reserve is available for borrowing to manage market risk and long term borrowing costs have been factored into the longer-term MTFs

Risk	Likelihood	Impact	Risk Management
Volatility and uncertainty around business rates	Likely	High	Ensure business rate income and appeals are monitored and that specific reserve is sufficient to manage in-year volatility
Anticipated savings not delivered	Possible	High	Ensure delivery plans are monitored and continue to assess on a regular basis. Ensure Budget Contingency Reserve sufficient to meet in-year issues.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Likely	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. An assessment is made as part of the budget process to ensure that revenue reserves are sufficient to meet these risks. The capital programme methodology looks to de-risk projects wherever possible.
Changes to Government Policy that affects future funding	Likely	High	Need to monitor and continue to highlight impact
Economic downturn impacts on commercial income	Possible	High	Portfolio has been diversified to manage some of this risk especially within the retail sector
Brexit risks	Likely	Medium	Continue to highlight the demand pressures to central Government regarding Adult Social Care and Children's Services. Review reserves to manage any short-term impact. Monitor any economic impact.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations.
The additional income from Heritage may not be sustained	Possible	Medium	Continue to monitor income levels and impact on business plan

The key risks will continue to be monitored throughout the budget setting process and subsequently outlined in each budget setting report to Council and will be reviewed regularly, and reported through budget monitoring to Cabinet.

16. Next Steps and Timetable for the Corporate Strategy and 2020/21 Budget Setting

Community engagement on the Council's Corporate Strategy and budget proposals will take place in the autumn period. In September, the Council Leader will update the Area Forums on the new administration's priorities in the context of the background information and plans set out in this report, and will seek feedback from attendees. Details of this process are set out below:

- 3rd September: Bathavon North Forum (Bathampton Village Hall, 6pm)
- 18th September: Cam Valley Forum (Freshford Memorial Hall, 6pm)
- 23rd September: Keynsham Area Forum (Keynsham Community Space, 6.30pm)
- 24th September: Somer Valley Forum (Swallow Community Café, 7pm)
- 30th September: Chew Valley Forum (Chew Valley School, 7pm)

Further updates on the work to develop the Corporate Strategy and MTFS will also be presented as appropriate to Parish Liaison on 30th October and the Area Forums due to take place in November and early December 2019.

The timeline also envisages that more specific budget proposals will be available for community engagement and feedback in December. It is therefore planned that at least one dedicated public engagement session will take place in December to promote feedback on what is being proposed for the budget. This would also provide an opportunity for dialogue and discussion of the approach being taken by the new administration to budget planning. The council work closely with our voluntary and community sector (eg through the "3SG" group) to ensure effective dialogue with local groups through this process.

For up to date details about the dates, timings and venues of Area Forum and Budget engagement meetings, please see here:

<https://www.bathnes.gov.uk/services/neighbourhoods-and-community-safety/localism-and-community-planning>

Views and feedback will be collated and reported to members through the detailed budget process. Policy Development and Scrutiny Panel arrangements are in place for November and January.

Cabinet and Council will consider the Corporate Strategy and budget in February 2020

