

## **Appendix 1**

### **Bath & North East Somerset – Medium Term Financial Strategy 2021/22 -2025/26**

#### **1. Purpose of the Strategy**

The Medium Term Financial Strategy (MTFS) provides a framework which details the available resources for strategic financial planning, articulating the organisation's key aims and ambitions and guiding our activities with medium term budget setting and planning.

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. Due to the financial pressure Covid has put on the Council the MTFS sets out strategic management options based on high level planning assumptions in section 10.

The focus is on the next two years for financial planning purposes with the emphasis on creating a transitional budget to allow the Council to recover from the financial impacts of Covid-19. At this stage 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 as set out in the Corporate Strategy.

#### **2. Expected Outcomes from the Strategy**

The objective of this document is to set the future years Covid-19 financial recovery strategy alongside meeting the administration's priorities for the Council 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 requires the financial plan to set out how income will equal spend over the short and medium term. Plans will take into account cost savings alongside income growth strategies as well as useable reserves.

As a result of the Covid pandemic the scale of the financial challenge is unprecedented, the Council is highly exposed due to its reliance on income, alongside the additional demands on Children's and Adult Social Care. The Council has responded to this challenge with a robust set of in year recovery measures that stabilises the budget position. The strategy focusses on how this approach can be adopted in future years addressing the short, medium and long-term financial planning requirements.

### **3. Executive Summary and recommendations from the MTFS for consideration**

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

- Set out and deliver the Council's priorities within affordable and sustainable financial constraints;
- Ensure that the 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, however this will be informed by the Chancellor's Comprehensive Spending Review that will be published in Autumn. This will set out the Governments spending plans for the Parliament and Government Department budgets, informing the Local Government settlement that will be announced in December. The estimates within the Strategy have not made any assumptions on new Government funding that may be allocated in 2021/22. 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, in 2019/20 the savings requirement was £8.85m and the revenue outturn was £0.12m under budget with positive transfers into reserves of £4m. A further £4.85m of savings is expected in this financial year which will have additional challenges as a result of Covid and the government lockdown and ongoing social distancing requirements.

The MTFS base case as set out in the report (section 9) estimates that the Council will need to find up to £35.93m (including the £2.81m already identified) in savings over the next five years. The strategy sets out revisions to the base case for consideration that would require £10m temporary use of reserves and holding Council tax increases at 2020/21 levels over the five-year MTFS period (subject to Government guidance). This will result in a savings requirement of £29.63m over the five year period which includes fully repaying the temporary use of reserves.

The main contributing factor that is driving the budget gap is the need to rebase income budgets as a result of Covid and general Council demand and inflationary pressure being higher than the additional income raised through Council tax increases.

In the shorter term the profile of the savings shows a requirement of £29.13m over the next two years (£20.76m in 2021/22 of which there are planned savings of £2.41m, followed by £8.37m). This gives a front loaded profile as a result of the budget rebasing and transition from loss of income due to Covid.

To manage this risk the revised base case sets out a reprofiled saving of £21.71m over the two-year period (£11.61 in 2021/22 and £10.10m).

The current MTFS base case includes increases of 1.99% 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. The revision to the base case includes 3.99% per annum which is subject to Government guidance for Council tax setting.

To manage financial risk the Council holds £13.52m of unearmarked reserves, if unutilised in 2020/21 the MTFS proposes that £5m of this reserve is transferred into an earmarked Covid risk reserve. This will leave a reserve balance of £8.52m that is within Council benchmark levels for unearmarked reserves as a percentage of net budget.

The Council holds Revenue Budget Contingency and Financial Planning / Smoothing reserves that enable one-off transitional funding to meet revenue costs. The MTFS proposes utilisation of £10m of reserves over the next two years to create transitional funding enabling the Council to deliver the changes required to reduce its reliance on Commercial Income. These reserves are replenished within the five year MTFS period. Flexible capital receipts will continue to be utilised to fund severance costs that result in delivering ongoing savings.

Capital spending will focus on the delivery of priority schemes within affordability levels, the 2020/21 Capital programme has undergone a thorough review as part of the Covid Financial Recovery Plan, resulting in a more accurate budget profile.

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 2021/22 and the following years.

#### **4. The Medium Term Financial Strategy**

The MTFS 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

### 2019/20 Outturn

The 2019/20 outturn reported an under budget position of £0.12m to Cabinet in July 2020 as follows:

Portfolio	Revised Budget £'m	Outturn £'m	Variance £'m
Leader	(0.36)	0.07	0.43
Resources	1.33	0.06	(1.27)
Adult Services	61.95	61.56	(0.40)
Children's Services	28.15	30.40	2.25
Climate Emergency & Neighbourhood Services	16.23	16.43	0.20
Transport Services	(0.02)	(0.22)	(0.20)
Housing, Planning & Economic Development	3.29	2.69	(0.60)
Community Services	(2.72)	(3.48)	(0.76)
<b>Total</b>	<b>107.84</b>	<b>107.49</b>	<b>(0.35)</b>
Approved Carry forwards			0.23
<b>Total (Including carry forwards)</b>			<b>(0.12)</b>

### Budget 2020/21

The 2020/21 net budget of £118.8m was approved by Council in February 2020. Quarter 1 budget monitoring to the end of June, showed a projected overspend of £10.8m against the revised budget of £121.94m as shown below.

These figures include the delivery of £20.7m in year recovery measures agreed by the Cabinet on the 2<sup>nd</sup> July. Current monitoring indicates that the majority of recovery measures will be delivered, the Government income reimbursement

scheme will give the opportunity to reduce the need for all recovery measures to be implemented in this financial year.

*Note: these are the Quarter 1 monitoring published figures and exclude the government sales, fees and charges income claim that will improve the position and be incorporated into the Quarter 2 monitoring.*

<b>Portfolio</b>	<b>Revised Budget £'m</b>	<b>Forecast Year End Actual £'m</b>	<b>Variance Over / (Under) £'m</b>
Leader	(0.63)	(0.63)	0.00
Resources	16.44	4.53	(11.91)
Adult Services	63.55	63.46	(0.09)
Children's Services	26.33	26.31	(0.02)
Climate Emergency & Neighbourhood Services	16.99	16.88	(0.11)
Transport Services	(0.09)	7.94	8.03
Housing, Planning & Economic Dev.	3.59	3.12	(0.47)
Community Services	(4.24)	11.10	15.34
<b>Total</b>	<b>121.94</b>	<b>132.71</b>	<b>10.77</b>

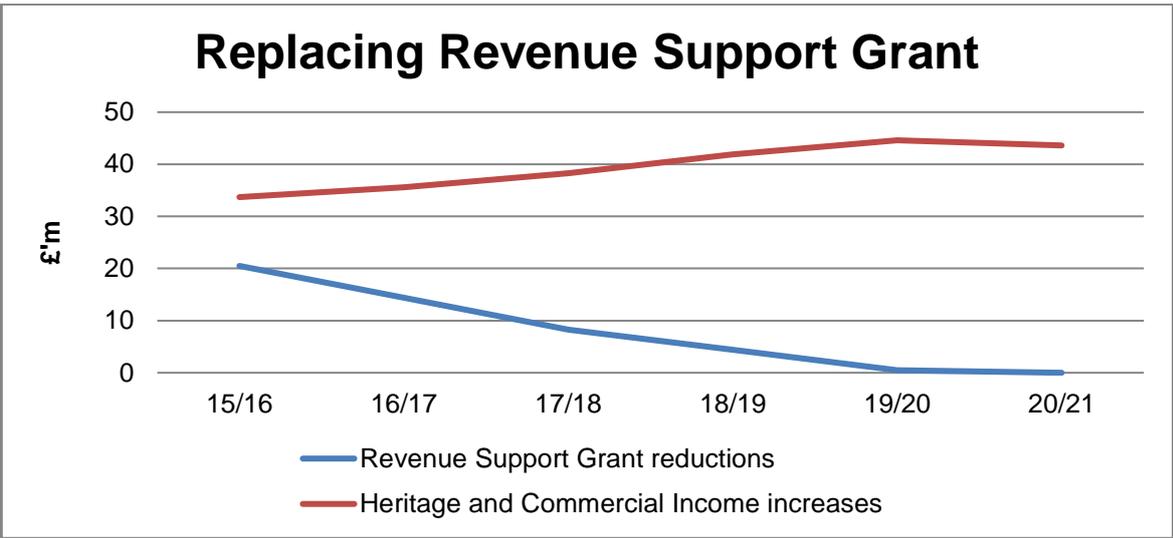
The projected deficit is due to income losses in Heritage Services, Parking and Commercial rents, as well as other income generating services, combined with new Covid-19 related expenditure pressures.

To mitigate this the Council has earmarked and committed general un-earmarked and financial planning reserves to fund the projected deficit. However, the requirement to use reserves should reduce as the announcement from MHCLG to reimburse local authorities for lost income will help minimise the impact on reserve balances and give the option to re-visit and adjust the recovery plans. The income reimbursement claim and proposed changes to the in-year recovery measures will be presented to Cabinet through the Quarter 2 monitoring in November.

### Analysis of Current Position

Local Government has built its budget plans based on continued reductions in revenue support grant funding.

The table below shows an extract from the 2020/21 MTFS that shows the Council has grown its' main income streams from heritage and commercial estates – due to Covid and the impact on income this is no longer a sustainable strategy.



**6. Drivers of Demand**

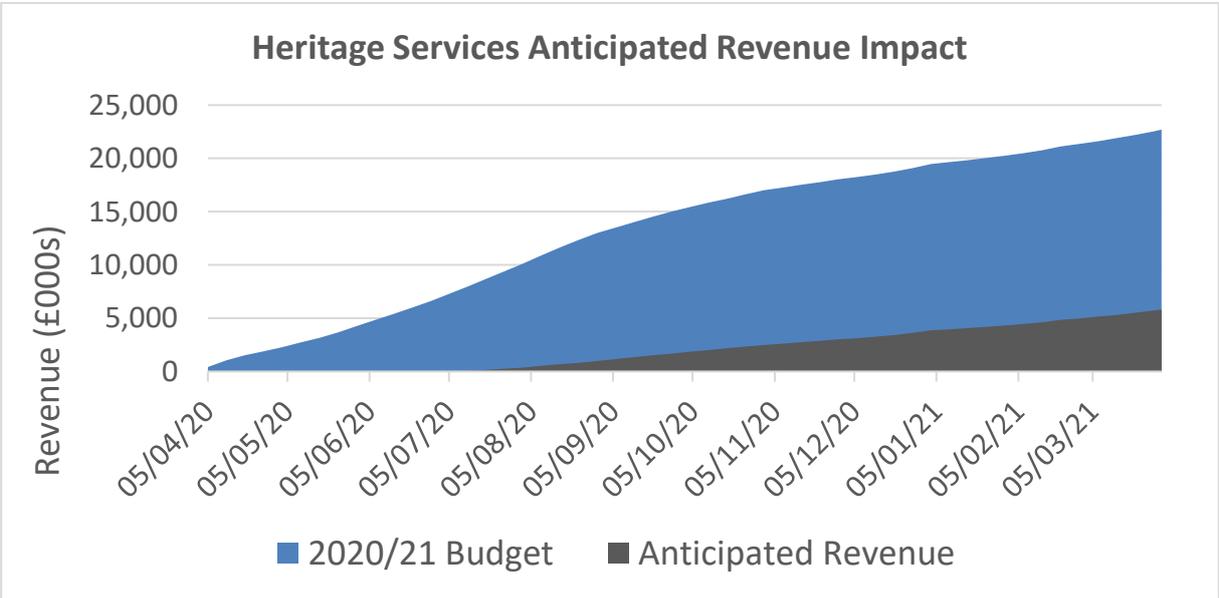
Covid impact on the Councils income budgets

The Office of National Statistics reported that the UK Gross Domestic Product in July was 11.7% lower than pre-pandemic levels seen in February 2020. During July there has been growth of 6.6% which indicates the steady path to recovery from the easing of restrictions and reopening of businesses, however this has had a material impact on the Councils finances which can be seen in the graphs below.

The projections are based on a period of recovery and do not account for a second Government lockdown.

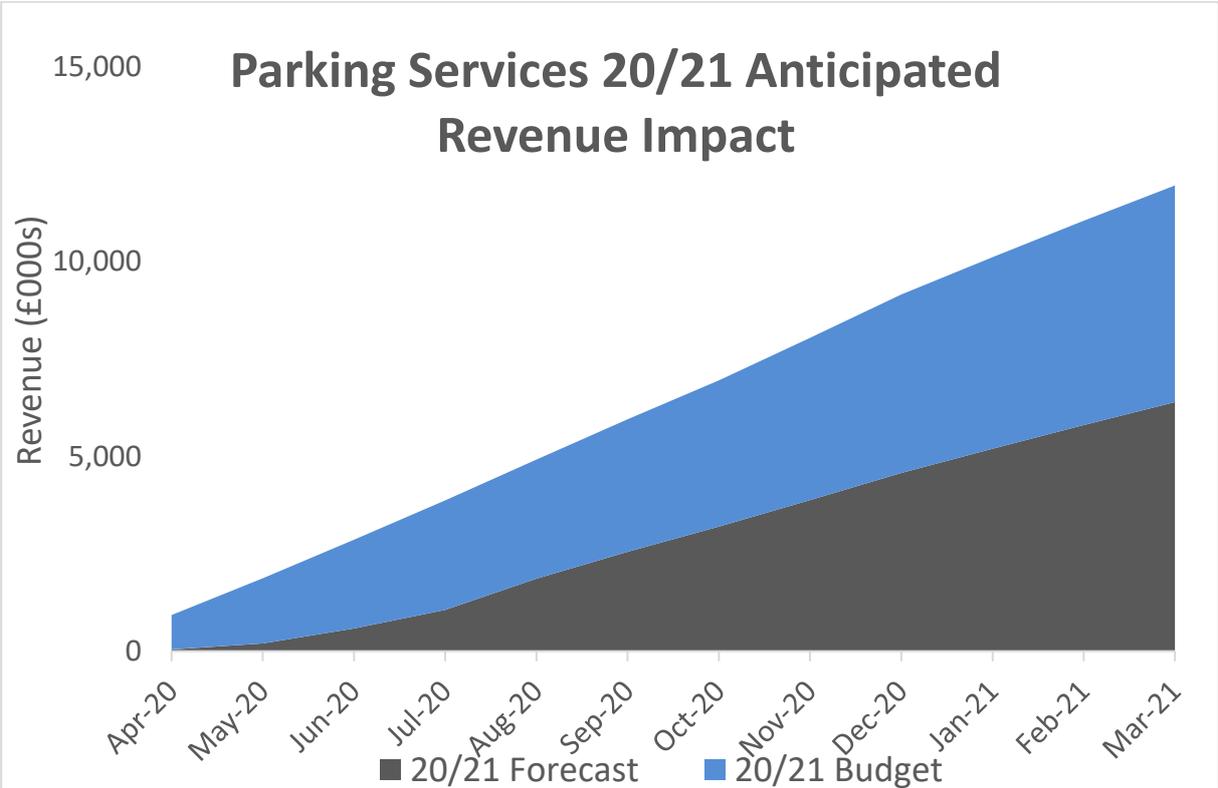
**Heritage Services Income**

Our Heritage Services gross income budget is c£23m, we are currently projecting a year end £16.5m deficit due to closure of the Roman Baths from March to early July. As the graph indicates there has been positive performance from the re-opening, performance has been ahead of the expected performance. The Roman Baths are open with restricted capacity of 20% to allow for social distancing.



### Parking Services Income

Our Parking Services income budget is c£12m, we are currently projecting a year end £5.1m deficit due to a period of non-charging whilst the government restrictions were in place and lower utilisation from a reduction in visitors. There has been positive performance during August attributed largely to public ‘staycations’ and is being closely monitoring to see whether this will continue after the holiday period and the cessation of the Government “Eat Out to Help Out” scheme. Early analysis highlights a rapid reduction in income with the beginning of the school term. Park & Ride usage is approximate 80% down on 2019 and this is contributing to car park income as workers in the city centre chose to avoid public transport, with Charlotte Street car park in particular showing a stronger yield per space than in 2019.

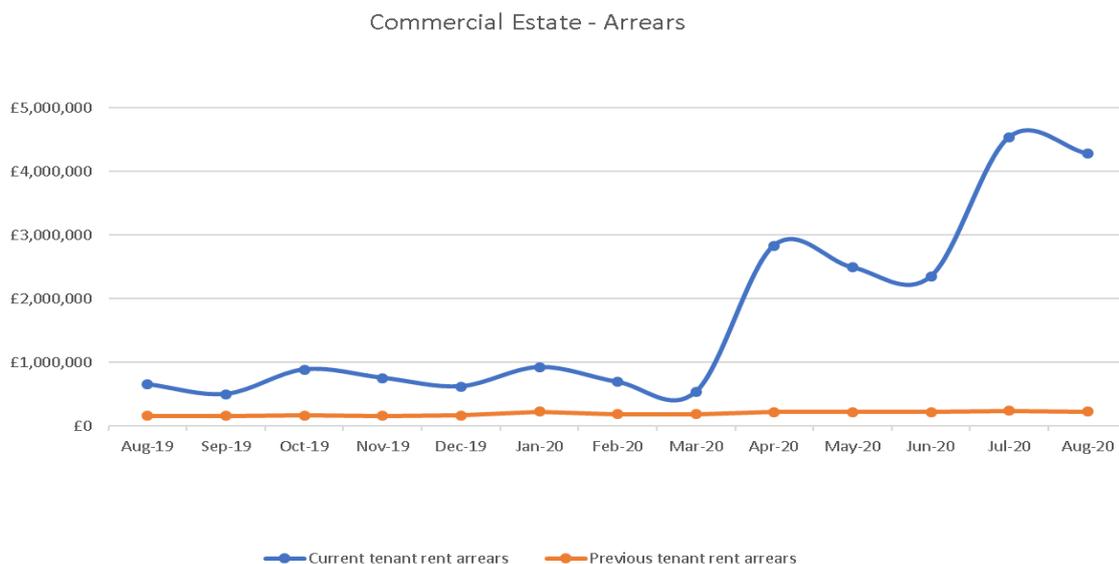


### Commercial Estate Income

The Council owns a large and diverse asset base of over 400 properties which includes a large proportion of Bath City Centre retail. The estate generates annual net income of £15.2m, as a result the financial configuration of the Council has been built on the annual income being achieved to fund services across the Council including Social Care. This poses one of the biggest recurring income risks to the Council, as a result a full review of the Commercial Estate is underway to revise the strategy and diversify the asset base to provide longer term financial security.

To help support retail tenants in their recovery periods of rent deferral has been granted, in addition to this there are significant levels on non-payment that require

income recovery action. In 2020/21 we are anticipating a financial pressure between £3-£6m at year end on Commercial Estate income.



## Demand Led Services - Social Care

### Adult Social Care

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 MTFs assumes that the Social Care funding included in the 2020/21 settlement will continue throughout the MTFs period, this is made up as follows:

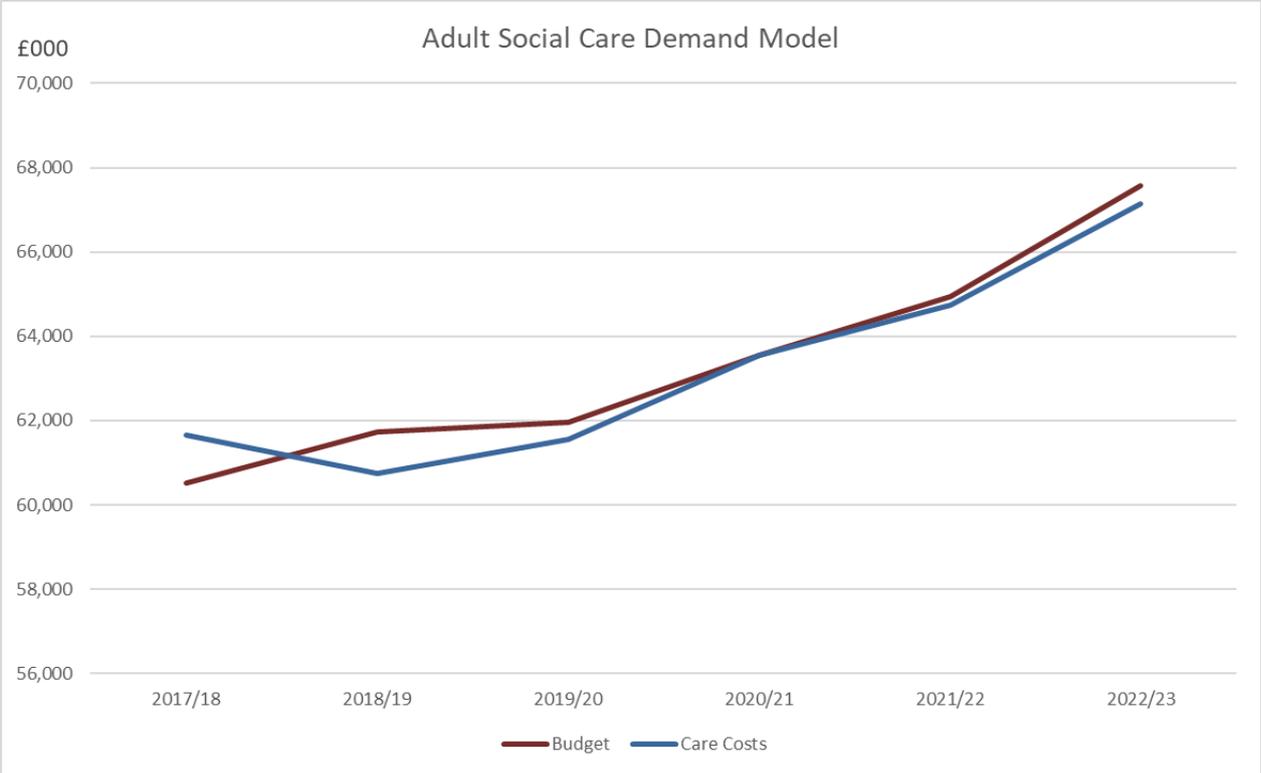
Grant	B&NES Allocation
Social Care support grant	£1.25m
Additional Social Care grant	£2.68m
iBCF Grant	£4.76m

The iBCF grant is part of the pooled budget with the B&NES Clinical Commissioning Group and ring-fenced to exclusively fund Adult Social Care.

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. This has been amplified as a result of Covid with direct support provided to the market through the government £600m infection control funding that allocated £2.2m to B&NES, with a further £500m recently announced to support the sector to the 31<sup>st</sup> March 2021. The

MTFS allocates £14.3m for demographic and contract inflation pressures within ASC over the next five years, service demand levels are being reviewed in detail as the current trend has show that caseload has slowed, and complexity of need and provider cost has increased.

The following graph shows the impact of demographic and inflationary growth in ASC on the budget and outturn position since 2014/15:



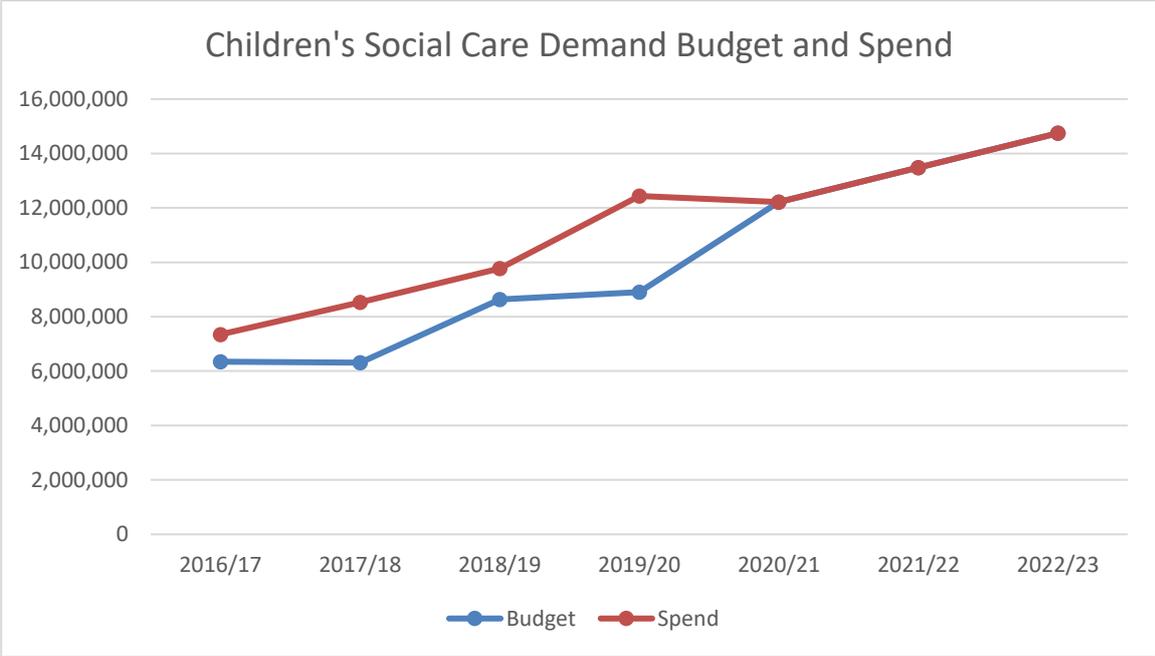
The above graph shows that the Council budget and care costs have much closer alignment from previous years. As part of the detailed work on the 2021/22 budget there will be a budget rebase to align with the latest information on service demand.

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, focusses 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.
- Identifying and managing in year risk and financial pressure within existing budget such as changes in the care home market.

## Children's Social Care

As demonstrated from the graph below Children's Services has been underfunded for many years. A rebasing exercise was completed for the 2020/21 budget, which added £2.1m budget into this area to reflect the increasing cost and number of children in care, in addition to the increasing costs of supporting disabled children at home. The number of children looked after (LAC) by the Council has risen by 40% in the past 5 years to 180 in 2019/20 (although this higher level is in line with similar authorities). The MTFFS allocates £6.9m for demographic and contractual inflationary pressures within Children's Services over the next five years.



Children's Services are very cognizant of the continued financial pressure that is resultant from the expense of providing appropriate care and placements to meet the needs of our children and young people. As a service we continue to review the models of care we utilise, opportunities to bring in external investment and good practice, and to scrutinise individual needs and placement costs in order to mitigate these financial pressures wherever possible.

Significant increases in children and young people with SEND are also adding to the pressure on the Dedicated Schools Grant managed by the Council. The 2019/20 outturn resulted in a DSG pressure of £1.25m. 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. These increases will have to be met from the Dedicated School Grant of future years and a deficit management plan will be required to be submitted to the DFE showing how we will recover the overspend.

## 7. Outlook for Government Grant Funding

### Covid Grants and Support

The MTFFS assumes that the 2020/21 Government response and financial support package to Councils was one-off and will not continue in 2021/22. We are seeking clarity from government on further support that will address the material income reductions faced by Councils. This is likely to be confirmed in the December Provisional settlement.

### New Homes Bonus

The Local Government Finance Settlement for 2020/21 confirmed the payment of £2.039m for new housing growth over the previous year, taking the total New Homes Bonus Grant (NHB) to £5.688m for 2020/21. The settlement announced that the uplift for 2020/21 would only be paid for one year without the further 3 years of legacy payments which are made for growth rewarded in 2019/20 and prior years. The proposed changes to the planning system will need to be assessed for financial risk when finalised following the Government consultation.

The table below shows the likely annual remaining funding which is reflected in the MTFFS.

	<b>Total New Homes Bonus Grant</b>			
<i>Payment relating to:</i>	<b>2020/21 £'m</b>	<b>2021/22 £'m</b>	<b>2022/23 £'m</b>	<b>2023/24 £'m</b>
2020/21	2.039			
2019/20	1.392	1.392	1.392	
2018/19	0.913	0.913		
2017/18	1.344			
<b>Total</b>	<b>5.688</b>	<b>2.305</b>	<b>1.392</b>	<b>0.000</b>

The MTFP also reflects an estimate of the Council's share of the nationally top-sliced funding for NHB being redistributed based on the old relative needs grant formula from 2021/22 onwards.

### Retained Local Business Rates – 100% Business Rate Retention Pilot

The MTFFS assumes that the West of England 100% Business Rate Retention Pilot will continue into 2021/22. The estimated benefit is approximately £3.8m in 2021/22. The plan currently assumes that this benefit will be removed as part of the review of Local Government Financing and Fairer Funding Review and that the Council will revert to the 75% Business Rate Retention Scheme currently planned for 2022/23.

As part of the proposed Budget, financial risk adjustments have been made for likely levels of future Business Rate income reflecting the Covid 19 related pressures impacting on the business sector together with making specific provisions for appeals. These assumptions will be kept under review as the final budget is developed. Any surplus or deficit on the Business Rate Collection Fund and associated income will be transferred to or from the Business Rates Reserve for consideration as part of the

Business Rates calculations for future years. This approach will include any changes that arise from the final settlement announcement relating to Business Rates.

The government has announced that additional flexibility will be granted to Local Authorities in financing any Collection Fund deficit that arises in 2020/21 in light of the Covid 19 impact on income. The MTFs factors in the spreading of the forecast £1.5m 2020/21 collection fund deficit over the following 3 years in line with the revised government financing rules.

### 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 Councils main revenue funding and included as part of the proposed budget.

As schools convert to academies the DfE take back the element of DSG payable to the local authority in order to make payments direct to the academies.

With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the local authority responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG. The local authority will need to submit a deficit recovery plan to the DfE to recover the deficit that occurred in 2019/20.

As part of the recovery the schools asked to contribute resources from schools allocations to support the SEND expenditure. Regulations allow up to 0.5% of the schools block to be transferred to the high needs block to support the SEND expenditure providing approval of schools through the Schools forum is obtained.

The school's 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 2021/22. This continues the transfers that have occurred in prior years, and would amount to approx. £580k.

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 10% remain as maintained schools.

### Social Care Grant

The MTFs assumes that government will not reduce grant funding into Social Care as outlined in the section 6 of the report. It is anticipated that the pending Social Care reform and Government Green paper will bring fundamental changes to the ongoing

funding methodology. At the stage it is prudent to plan on the basis of existing funding with the assumption that there will not be a net reduction.

### Better Care Fund

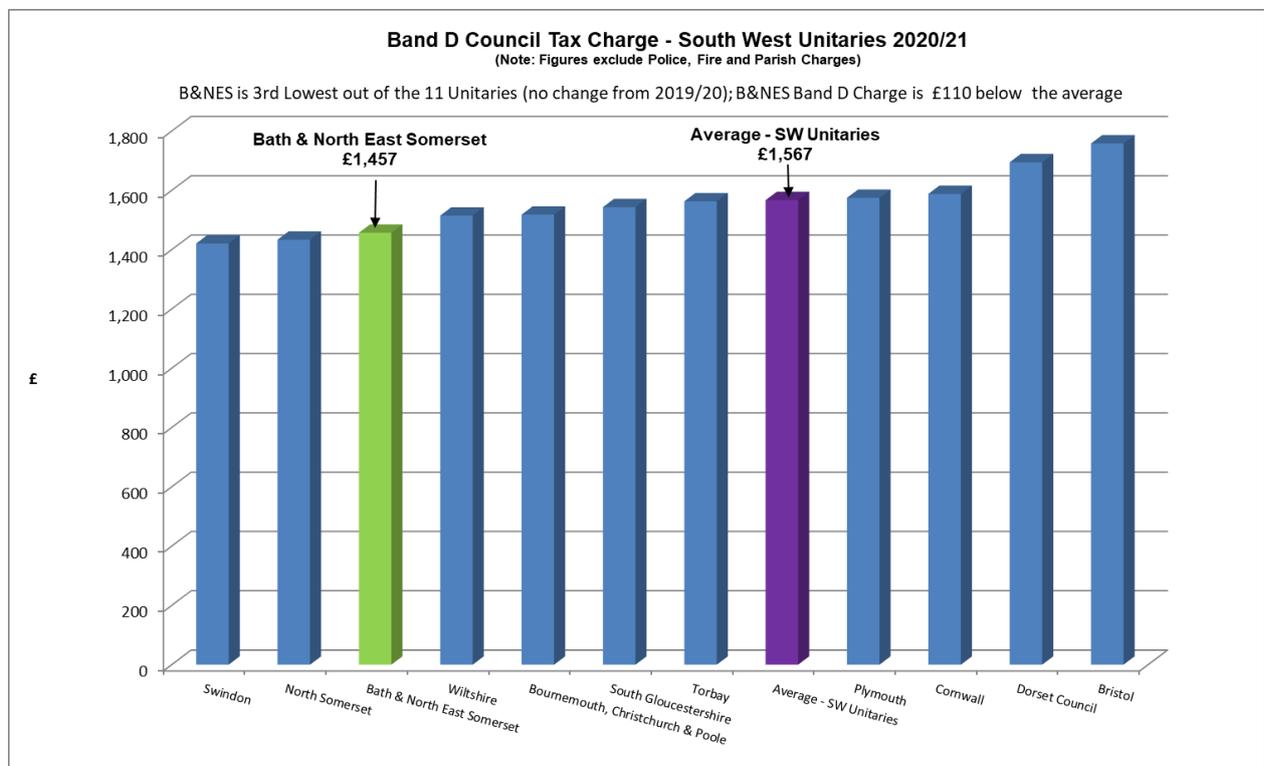
The Better Care Fund is intended to incentivize the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, in particular 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 due to the impact of the pandemic.

The Council and CCG’s Better Care Fund has a minimum CCG funding contribution of £12.7m in 2020/21. The Strategy currently estimates that funding will continue at current levels with inflationary uplift given annually to help fund the known pressures on both the Council and the CCG.

## **8. Council Tax**

### Comparison of 2020/21 Council Tax

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



### Council Tax collection fund deficit

Due to the 2020/21 impact of Covid on Council tax collection and local Council tax support scheme, we are projecting potential year end deficit of £4.5m. The recovery of this deficit has been factored into the next three financial years of the MTFs.

### Council Tax Precept

The current funding gap in the MTFs assumes a **1.99% increase** in council tax each year. This assumes that the Government's referendum principles in respect of general Council Tax will continue to allow increases of up to 2% before a referendum is required. In addition, for 2021/22 and 2022/23 the MTFs assumes that the Council tax base remains at 2020/21 levels with incremental growth from 2023/24 onwards.

### Adult Social Care Precept

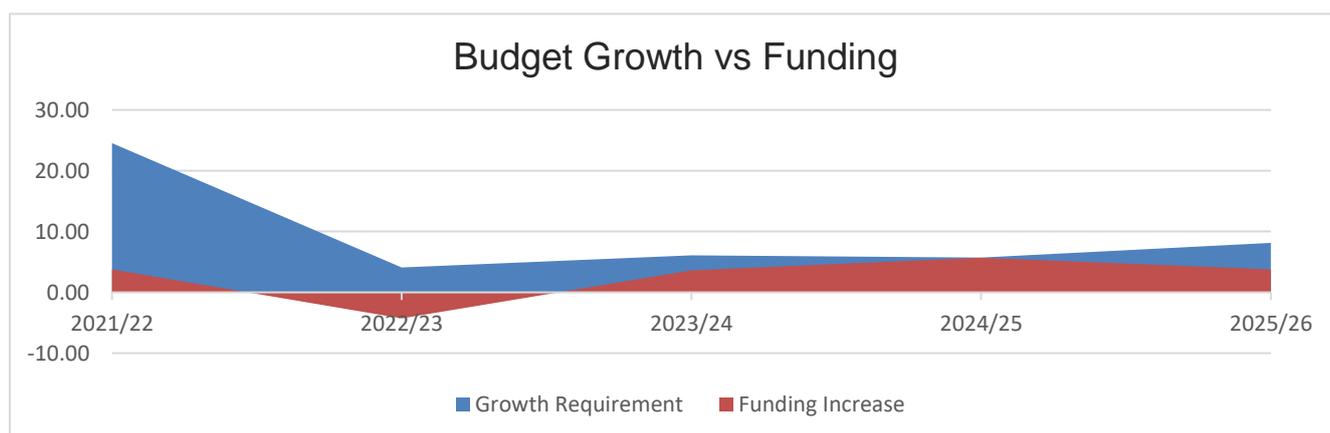
The Government has continued to recognise some of the pressures facing Adult Social Care (ASC) authorities, providing for a one year continuation of the specific increase in the local council tax precept ringfenced to ASC of 2% in 2020/21. There has been no further indication from central Government to extend the precept beyond 2020/21 and therefore no further increases have been factored in at this time.

## 9. Financial Outlook

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

Budget Planning	Future years assumptions					Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
Growth Requirement	24.54	4.09	6.07	5.70	8.12	48.52
Funding Increase	3.78	-4.28	3.60	5.70	3.79	12.59
<b>Annual Funding gap</b>	<b>20.76</b>	<b>8.37</b>	<b>2.47</b>	<b>0.00</b>	<b>4.33</b>	<b>35.93</b>
Savings Already Agreed	2.41	0.40				2.81
<b>Remaining Funding Gap</b>	<b>18.35</b>	<b>7.97</b>	<b>2.47</b>	<b>0.00</b>	<b>4.33</b>	<b>33.12</b>

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:

Budget Planning	Future years assumptions £m				
	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Budget Requirement (Previous Year)</b>	<b>118.25</b>	<b>122.03</b>	<b>117.76</b>	<b>121.36</b>	<b>127.06</b>
Budget Adjustments	(1.20)	0.21	0.00	0.00	0.00
Pay & Pension	2.44	2.35	3.02	3.09	3.15
Demographic Growth	2.34	1.98	1.98	1.98	1.98
Contract Inflation	1.93	1.97	1.92	1.98	1.98
New Homes Bonus Pressure	2.57	0.56	1.01	0.00	0.00
Capital Financing	1.61	1.00	1.00	1.00	1.00
Budget pressure / rebasing	14.85	(3.97)	(2.86)	(2.35)	0.00
<b>Draft Budget Before Savings</b>	<b>142.80</b>	<b>126.13</b>	<b>123.83</b>	<b>127.06</b>	<b>135.17</b>
Agreed Savings Plans	(2.41)	(0.40)	0.00	0.00	0.00
Estimated Savings Required	(18.36)	(7.96)	(2.47)	0.00	(4.33)
<b>Budget Requirement</b>	<b>122.03</b>	<b>117.76</b>	<b>121.36</b>	<b>127.06</b>	<b>130.84</b>
<b>Funding of Budget Requirement</b>					
Council Tax	97.87	99.85	102.90	107.55	110.78
Business rates retention	21.16	17.90	18.45	19.51	20.06
Reserve transfers (To) / From	3.00	0.00	0.00	0.00	0.00
<b>Funding of Budget Requirement Total</b>	<b>122.03</b>	<b>117.76</b>	<b>121.36</b>	<b>127.06</b>	<b>130.84</b>

The forecast includes the following cost pressures and assumptions:

- **Pay Inflation** – Estimated 2.75% per annum.
- **Council tax** – Assumed at 1.99% excluding Social Care precept.
- **Council tax collection fund 2020/21 deficit** – Forecast at £4.5m recovered evenly over the next 3 years.
- **Pension Costs** – Have been revised in line with the recent revaluation for the next two years followed by a 1% increase per annum from 2023/24;
- **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 held at existing planning levels of 2%, this will be refreshed for the detailed budget proposal based on ONS data.
- **Budget Pressures / Rebasing** – 2021/22 budget rebasing of income budgets taking account of Covid pressures, with improvement in future years.
- **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.
- **Reserves** – Planned use of £3m reserves to fund business rates pressures and corporate contingency budget for unplanned revenue pressures. Establishment of a £5m Covid risk reserve.

## 10. Managing the Medium Term Financial Strategy

Current estimates are that £35.93m 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 there is currently a gap of £29.13m, including the pre-approved savings of £2.81m. Due to the budget rebasing from income loss this puts 81% of the 5 year MTFS savings in 2021/22 and 2022/23 with £20.76m to find next year.

This gives an unprecedented target next year which is 17.6% of the current net budget of £118.25m. It is the view of the Chief Executive and S151 Officer that this level of recurrent revenue savings will not be achievable in full given the current strain and new Covid related demands the Council is managing.

### Recovery and transition plan

The following approach is recommended to create a robust plan of action, manage change and balance the budget.

Focus on short to medium term savings that enable Covid-19 recovery and meet the following principles:

#### 3 Key Principles

- Manifesto & Corporate Strategy aligned and Member engaged with Cabinet assurance and oversight of all proposals.
- Corporate Focus on areas of Strategic Priority: Structure, Income, Social Care, Property Services - High financial value and organisational benefit required.
- Directors are collectively responsible for generating service plan savings – Achievable with minimal disruption to services and the public.

#### To ensure:

- Removal of duplicated effort & improved service delivery.
- Use of technology for smarter working.
- Change is resourced appropriately to deliver results.
- The implementation and delivery of the budget proposal is Director led and Finance facilitated.

The following strategic planning themes will enable the Council to break down the actions needed to address the short, medium and long term. An overarching theme

that underpins delivery plans will be ensuring that the Climate and Nature Emergency is supported with no adverse impacts.

### **Stabilise – Short term**

- Reduce reliance on income through reducing expenditure and broaden income base wherever this is possible.
- Ensure temporary corporate and service mitigations are in place.

### **Transition – Medium term**

- Reset business plans looking at new delivery models
- Revise the Councils operating structure
- Maximise opportunity through IT and smarter working
- Minimise cost to reflect lower income base

### **Change – Long term**

Implement new strategies for:

- Commercial income management
- Social Care delivery
- Resident focussed service delivery models

To manage the strategy financially and in practice there will need to be fundamental changes to the way we approach budget planning to ensure a fully achievable set of proposals can be taken forward in the 2021/22 Budget proposal.

The following scenario shows how the MTFS base case can be revised to give a realistic and manageable savings profile based on some core planning assumptions:

#### **Assumption 1**

Utilise £10m of one-off funding to fund revenue transition through either, temporary use of reserves / capital receipts / government loan request. Funding repaid in full within the 5-year MTFS period.

#### **Assumption 2**

Maintain Council tax and social care precepts at 2020/21 levels of a minimum of 3.99% throughout the MTFS term (Subject to government decision on the Council tax cap). This will help rebase Council funding levels as the graph in section 8 illustrates that B&NES is well below the South West average.

#### **Assumption 3**

Revise older adults Social Care demand to recognise current placement levels. Section 6 illustrates that placement demand on Adults Social Care in B&NES has reduced allowing the Council to rebase annual demand growth funding.

#### **Assumption 4**

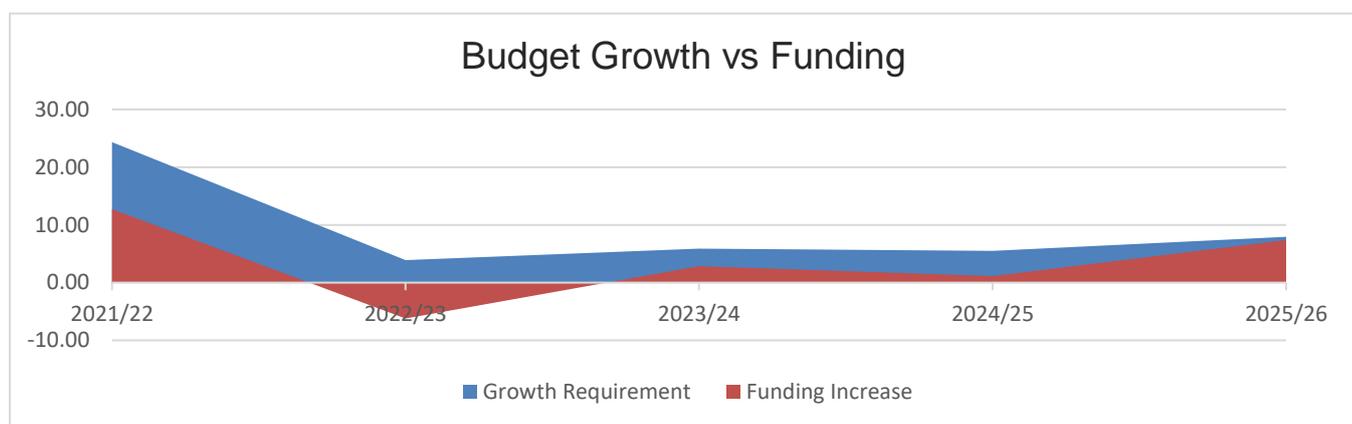
Restructure the council's commercial property portfolio to increase returns throughout the plan period.

## Revised MTF5 projection

Taking in to account the above assumptions the MTF5 projections have been revised as follows:

NOTE: This is for illustration purposes only and may not be the final option put forward in the budget proposal.

Budget Planning	Future years assumptions					Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
Growth Requirement	24.34	3.89	5.87	5.50	7.92	47.52
Funding Increase	12.73	-6.21	2.85	1.12	7.40	17.89
<b>Annual Funding gap</b>	<b>11.61</b>	<b>10.10</b>	<b>3.02</b>	<b>4.38</b>	<b>0.52</b>	<b>29.63</b>
Savings Already Agreed	2.41	0.40				2.81
<b>Remaining Funding Gap</b>	<b>9.20</b>	<b>9.70</b>	<b>3.02</b>	<b>4.38</b>	<b>0.52</b>	<b>26.82</b>



## Summary of changes

This profile would enable more manageable savings profile over the 5 year period. This does bring significant challenges when assessed against the February 2020/21 budget profile with an increase of £7.6m over the next two years. The revised projection uses £10m of reserves (£7m in 2021/22 and £3m in 2022/23), which are paid back in years 4 & 5.

Budget Planning	Future years assumptions					Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
<b>Annual Funding gap</b>	<b>20.76</b>	<b>8.37</b>	<b>2.47</b>	<b>0.00</b>	<b>4.33</b>	<b>35.93</b>
<b>Revised Annual Funding gap</b>	<b>11.61</b>	<b>10.10</b>	<b>3.02</b>	<b>4.38</b>	<b>0.52</b>	<b>29.63</b>
<b>Variance Adverse / (Favourable)</b>	<b>(9.15)</b>	<b>1.73</b>	<b>0.55</b>	<b>4.38</b>	<b>(3.81)</b>	<b>(6.30)</b>

The core funding changes that will enable a more manageable profile are achieved through the following:

Budget gap movement	2021/22 £m	2020/21 £m	2020/21 £m	2020/21 £m	2020/21 £m
Opening budget movement		8.95	7.01	6.26	1.69
Demographic Growth	(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
Council Tax	(1.95)	(4.01)	(6.26)	(8.69)	(11.30)
Reserve transfers	(7.00)	(3.00)	0.00	7.00	6.00
<b>Total</b>	<b>(9.15)</b>	<b>1.73</b>	<b>0.55</b>	<b>4.38</b>	<b>(3.81)</b>

This shows how the combination of Council tax (3.99%), reduced growth (£0.2m per annum) and temporary funding (£10m) will enable a smoother transition period to enable recurrent savings to be achieved over a longer term to address the Councils income pressures.

### Affordability risk

This approach needs to be managed in an affordable way, there is a risk of over reliance on reserves needing repayment that will become unaffordable if one-off reserve mitigations are used to reprofile savings further into future years.

The illustration below shows how the temporary funding requirement moves from the proposed £10m to c£25m to facilitate a reduced savings requirement of £6m per annum for 2021/22 and 2022/23. This assumes temporary funding will be repaid within the 5-year period as above.

Budget Planning	Future years assumptions					Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
<b>Annual Funding gap</b>	<b>20.76</b>	<b>8.37</b>	<b>2.47</b>	<b>0.00</b>	<b>4.33</b>	<b>35.93</b>
<b>Revised Annual Funding gap</b>	<b>5.99</b>	<b>6.00</b>	<b>12.74</b>	<b>7.88</b>	<b>8.86</b>	<b>41.47</b>
<b>Variance Adverse / (Favourable)</b>	<b>(14.77)</b>	<b>(2.37)</b>	<b>10.27</b>	<b>7.88</b>	<b>4.53</b>	<b>5.54</b>
Transition funding requirement	12.62	12.72	0.00	(10.50)	(14.84)	0.00

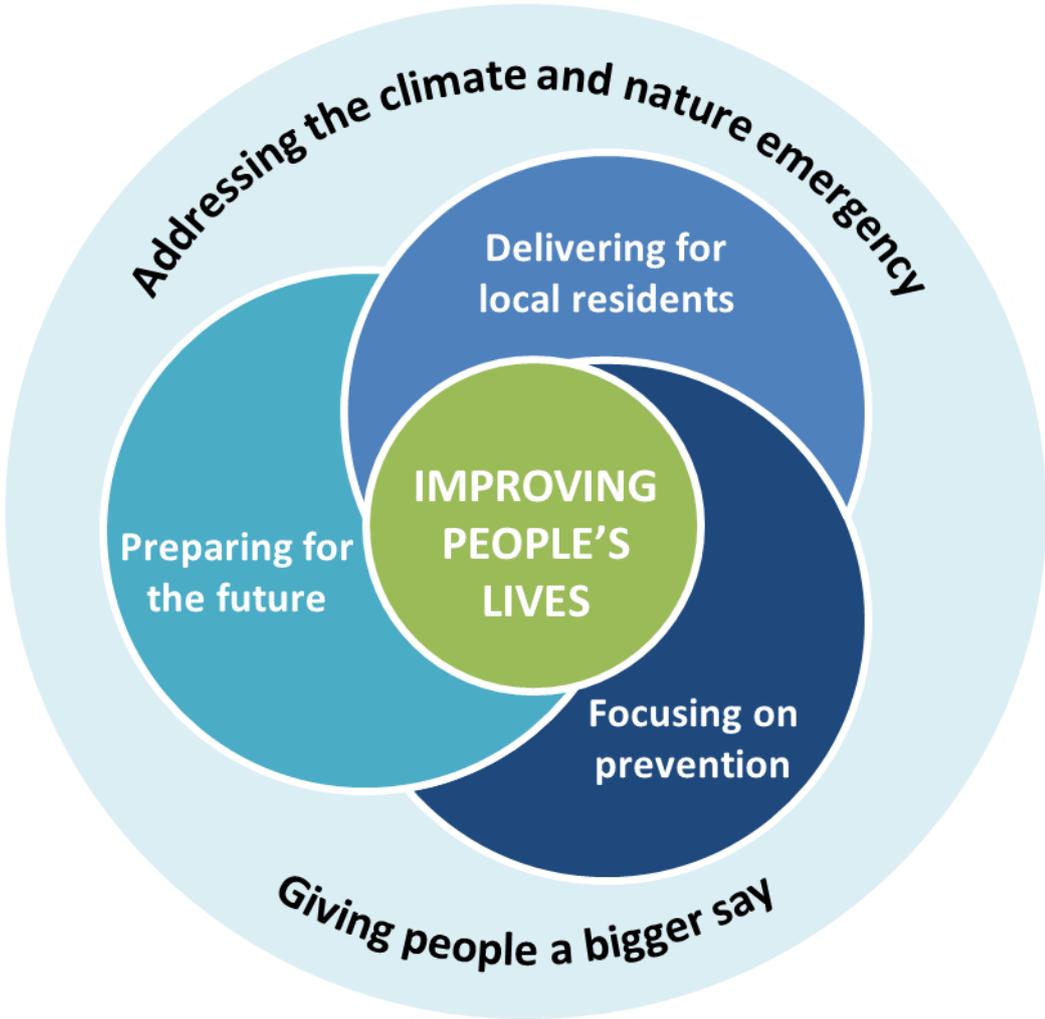
Whilst this helps reduce the year 1 and 2 savings requirement this will compound the need for transitional funding, resulting in a temporary funding requirement of £25.34m which will add to the budget gap in years 3-5. This will result in an increase to the total budget gap from the original base case by £5.54m with £41.47m of savings required over the 5-year period. This approach is not advised or affordable for the Council.

## 11. Corporate Strategy and Council priority areas

The Medium Term Financial Strategy sets out the financial framework for allocating resources across the Council. How this is achieved will require close alignment to the Corporate Strategy as set out below.

- ONE: We have **one** overriding purpose – to improve people’s lives.  
  
This might sound simple but it brings together everything we do, from cleaning the streets to caring for our older people. It is the foundation for our strategy and we will ensure that it drives our commitments, spending and service delivery.
  
- TWO: We have **two** core policies – **tackling the climate and ecological emergency** and **giving people a bigger say**. These will shape **everything** we do.
  
- THREE: To translate our purpose into commitments, we have identified **three** principles. We want to **prepare for the future, deliver for local residents and focus on prevention**.

This is all set out clearly in the diagram below:



This is the “golden thread” which drives what we do ensuring that setting budgets and managing our people - our most valuable resource - are guided by the council’s priorities. It also means that our commitments are realistic and achievable.

Areas of strategic priority and focus over the next two years will include:

- Ongoing investment to deliver more effective transport schemes across the council area, with a particular focus on creating low traffic neighbourhoods and more opportunity to prioritise walking and cycling and the introduction of financial incentives to reduce inward commuting through the extension of RPZs.
- Continued investment to support the most vulnerable people in our communities.
- Continued commitment to secure action to address the climate and ecological emergency.
- Focus on supporting the local economy to recover from the impact of the pandemic with a particular priority to work with partners to rebalance the economy to reduce the dependence on retail, hospitality and tourism.
- Support the “Preparing for the Future” programme to modernise the council with a focus on improved asset management and flexible working.

## **12. 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 requires authorities to assess 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.

The Council follows this approach through:

- Continuing to review all existing schemes and simplify, revise, reprofile or remove as necessary;
- Minimising new schemes except those that meet corporate priorities;
- Agreeing an affordable limit for new schemes requiring corporate borrowing;
- Ensuring adequate investment in assets supporting key service provision (including meeting health and safety requirements or replace obsolete or inefficient assets/equipment); and
- Delivering or working 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 2020 as part of budget setting:

#### Capital Schemes for Approval

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2020/2021 £'m</b>	<b>Budget 2021/2022 £'m</b>	<b>Budget 2022/2023 £'m</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Total £'m</b>
Resources & Deputy Leader	22.538	0.121	0.110	0.670	0.000	<b>23.439</b>
Adult Services	0.388	0.000	0.000	0.000	0.000	<b>0.388</b>
Children's Services	3.667	0.047	0.000	0.000	0.000	<b>3.714</b>
Climate Emergency & Neighbourhood Services	6.595	0.000	0.000	0.000	0.000	<b>6.595</b>
Transport Services	10.548	0.110	0.000	0.000	0.000	<b>10.658</b>
Housing, Planning & Economic Development	58.208	15.112	2.071	0.131	0.000	<b>75.522</b>
Community Services	6.662	0.252	0.154	0.04	0.000	<b>7.116</b>
Corporate Capital Contingency	0.900	0.000	0.000	0.000	0.000	<b>0.900</b>
<b>Total</b>	<b>109.507</b>	<b>15.642</b>	<b>2.335</b>	<b>0.849</b>	<b>0.000</b>	<b>128.333</b>

Capital Schemes for Provisional Approval (Subject to)

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2020/2021 £'m</b>	<b>Budget 2021/2022 £'m</b>	<b>Budget 2022/2023 £'m</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Total £'m</b>
Resources & Deputy Leader	34.349	4.315	2.200	0.000	0.000	<b>40.864</b>
Children's Services	20.450	0.000	0.000	0.000	0.000	<b>20.450</b>
Climate Emergency & Neighbourhood Services	35.224	0.458	1.007	0.855	2.607	<b>40.151</b>
Transport Services	11.089	8.415	5.704	4.924	0.025	<b>30.157</b>
Housing, Planning & Economic Development	23.071	13.637	2.955	2.610	0.615	<b>42.888</b>
Community Services	2.596	2.289	1.401	0.683	0.657	<b>7.626</b>
<b>Total</b>	<b>126.779</b>	<b>29.114</b>	<b>13.267</b>	<b>9.072</b>	<b>3.904</b>	<b>182.136</b>

<b>Grand Total</b>	<b>236.286</b>	<b>44.756</b>	<b>15.602</b>	<b>9.921</b>	<b>3.904</b>	<b>310.469</b>
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The current capital programme that was approved in February 2020 was funded as follows:

<b>Financing</b>	<b>Budget 2020/2021 £'m</b>	<b>Budget 2021/2022 £'m</b>	<b>Budget 2022/2023 £'m</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Total £'m</b>
Grant	86.605	20.437	6.899	6.469	1.158	<b>121.569</b>
Capital Receipts/RTB	9.593	1.410	1.685	5.700	0	<b>18.388</b>
Revenue	0.114	0.000	0.000	0.000	0.000	<b>0.114</b>
Borrowing	130.266	20.763	6.055	-3.344	2.632	<b>156.371</b>
3rd Party (inc S106 & CIL)	9.707	2.146	0.963	1.096	0.114	<b>14.027</b>
<b>Total</b>	<b>236.286</b>	<b>44.756</b>	<b>15.602</b>	<b>9.921</b>	<b>3.904</b>	<b>310.469</b>

Note this does not include slippage from 2019/20 which totalled £26.4m.

An allocation of up to £1m in revenue to support new schemes has been factored into 2021/22, of which £0.3m remains to fund new proposals as part of this years budget report, with £0.5m included in future years 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 2021.

Capital receipts will be used flexibly and further adjustments may be made as part of setting the budget for 2021/22 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 of £2.4m;
- 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 2020 and there are currently no revisions proposed.

## **11. 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 2020/21 Financial Recovery plan reviewed and assessed the Council levels of Non-Earmarked Reserves, this resulted in £5m being earmarked to mitigate the in year financial impact on the revenue budget. It is now assumed that this will not be used following the announcement of the Government Sales, Fees and Charges income compensation scheme that will partially reimburse irrecoverable income loss.

To manage financial risk the Council holds £13.52m of unearmarked reserves, if unutilised in 2020/21 the MTFs proposes that £5m of this reserve is transferred into an earmarked Covid risk reserve. This will leave a reserve balance of £8.52m that is

within Council benchmark levels for unearmarked reserves as a percentage of net budget.

The following table shows each of the key reserves held for financial planning, the expected opening balance for 2021/22 and anticipated closing balance after the projected use:

	<b>Estimated Balance 31/03/2021</b>	<b>Projected Use in Year</b>	<b>Current Estimated Balance 31/3/22</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Revenue Budget Contingency*	4.32	3.3	1.02
Financial Planning and Smoothing Reserve*	5.62	4.0	1.62
Transformation Investment Reserve	2.73	1.2	1.53
Restructuring & Severance Reserve	2.18		2.18

Note \* Use of these reserves are in line with the Covid-19 Financial Recovery Report in July 2020

The Financial Recovery Report Cabinet report in July 2020 earmarked £2.43m of the Revenue Budget Contingency and £4m of the Financial Planning and Smoothing reserve, the MTFs assumes the these amounts will now be available for use in 2021/22 and not required in 2020/21 due to the Government grant for income reimbursement replacing the need to draw on Council reserves.

#### Flexible use of Capital receipts

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.

## **12. 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.

## **13. Public/Stakeholder Engagement**

We will be making more information available on our MTFs for stakeholder engagement in November 2020, this will also be subject to scrutiny by the Corporate Policy Scrutiny Panel.

Subject to the timing of central Government funding announcements we hope to engage on more detailed budget proposals in December / January including reporting to Policy Development and Scrutiny.

## 14. Budget Setting Timetable

The table below sets out the budget planning timetable.

Activity	Meeting	Date
MTFS Report	Cabinet	8 <sup>th</sup> October 2020
Revenue & Capital plans	CEX, S151 and Cabinet assurance meeting	2 <sup>nd</sup> November 2020
MHCLG Announces Local Government settlement	N/A	Early December 2020
Budget proposal consultation	Public briefings & webinar	During December 2020
Budget Report	Corporate Scrutiny	January 2021
Budget Report	Cabinet	11 <sup>th</sup> February 2021
Budget Report	Council	16 <sup>th</sup> February 2021

## 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 Update
Further government restrictions in the event of a second wave virus spread.	Possible	High	This is certainly a material risk, whilst not one the Council has direct control over, every step is being put in place to follow government guidance following the recommendations of our Director of Public Health.
Long term impacts on the Councils Commercial Estate over and above anticipated levels.	Possible	High	Current modelling has been prudent anticipating a material impact in 2020/21 if this continues into future years a full assessment will be required of the Commercial Estate asset base.
The income from Heritage Services may not recover in the short term.	Possible	High	Continue to monitor income levels and impact on business plan once the service is re-opened. Pre Covid-19 performance has exceeded business plan targets; performance will be closely monitored for the rest of the financial year.
Impact on Reserves	Possible	High	Without additional government grant there is the risk that Council reserve levels are not enough to manage future years risk. To manage this the full delivery of recovery plans will help minimise use of reserves.

Interest rates increase	Possible	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFS. The current forecast from our treasury management advisors is that borrowing rates will remain at current low levels in the medium term until economic growth prospects improve. The Council will continue to consider shorter term borrowing options alongside the PWLB.
Volatility and uncertainty around business rates	Likely	High	The impacts of Covid-19 will increase the volatility and uncertainty around business rate income. In 2020/21 this risk will be partly offset by the 100% business rate relief the government has announced for all Retail, Leisure and Hospitality businesses.  We continue to monitor arrears, CVAs, and liquidations with a specific reserve held to manage in-year volatility.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Possible	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. 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
Brexit risks	Likely	Medium	During the Brexit transition period from the 31 <sup>st</sup> January 2020 to the 31 <sup>st</sup> December 2020 there will be a period of uncertainty whilst a Trade Deal is negotiated. Impacts on the Councils supply chain will need close monitoring.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations.
Capital receipts in the areas identified are insufficient to meet target	Possible	Medium	There is a risk that a depressed market will impact on current values, in the short to medium term the Council should not rely on capital receipts as a key funding source.

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.