

APPENDIX 1

Bath & North East Somerset – Medium Term Financial Strategy 2022/23 -2026/27

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 current financial challenges the Council faces the MTFS sets out strategic management options based on the high-level planning assumptions in section 9.

The focus is on the next two years for financial planning purposes with the emphasis on creating a budget to allow the Council to recover from the financial impacts of Covid and to deliver services to improve people's lives. At this stage uncertainty remains 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 financial recovery and strategic resourcing plan; alongside meeting the administration's priorities for the Council within the context that enables the delivery of 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 remains challenging, 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 stabilised and balanced the 2020/21 budget. The strategy focusses on how this approach can be adopted in the current and 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 Government's 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 2022/23. Members will be provided 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 2020/21 the pre-covid budget had a savings requirement of £4.85m, in practice the Council delivered savings of over £11m through its financial recovery plan in response to the Covid pandemic achieving a balance budget. As a result of the ongoing budget challenge the 2021/22 budget requires the delivery of £8.48m in savings.

The MTFs base case as set out in the report (section 9) estimates that the Council will need to find up to £28.01m (including the £1.31m already identified) in savings over the next five years. The strategy sets out revisions to the base case for consideration that would require holding Council tax increases at 2020/21 levels (3.99%) over the five-year MTFs period (subject to Government guidance). This will result in a savings requirement of £15.95m over the five year period.

The main contributing factor that is driving the budget gap is the need to operate with a lower commercial income base budget and also the fact that service demand pressures and inflationary uplift is likely to cost more than the additional income raised through Council tax increases.

In the shorter term the profile of the savings shows a requirement of £19.53m over the next two years (£13.12m in 2022/23 of which there are planned savings of £1.31m, followed by £6.41m in 2023/24). This gives a front-loaded profile from the budget rebasing and transition away from the Covid grants received in 2021/22.

To manage this risk the scenario 2 budget sets out a reprofiled saving of £15.25m over the two-year period (£11.06 in 2022/23 and £4.19m in 2023/24).

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 (scenario 2) includes up to 3.99% per annum which is subject to Government guidance for Council tax setting.

To manage financial risk the Council holds £12.58m of unearmarked reserves, if unutilised in 2021/22 the MTFS proposes that the Council continues to hold a commitment of £5m of this reserve for unbudgeted financial pressures that may arise from Covid.

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 £3m of reserves in 2022/23 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, this use will be subject to government guidance for use from April 2022.

Capital spending will focus on the delivery of priority schemes within affordability levels, the 2021/22 Capital is being reviewed to ensure the most accurate delivery timetable, 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 2022/23 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, tackling the Climate Emergency and giving residents a bigger say.
- Council tax increases have been included within the term of the MTFS to support essential services.

- New sustainable income opportunities are to be identified and maximised wherever possible while maintaining current income streams through current economic uncertainty.

5. The Current Financial Position

2020/21 Outturn

The 2020/21 outturn reported an on-budget position after reserve transfers to Cabinet in July 2021 as follows:

Portfolio	Revised Budget £'m	Outturn £'m	Variance Over / (Under) £'m
Leader	(0.63)	(0.01)	0.62
Resources	8.64	2.03	(6.60)
Adult Services	54.95	50.27	(4.68)
Children's Services	30.96	32.84	1.88
Climate Emergency & Neighbourhood Services	17.00	16.84	(0.16)
Transport Services	(0.36)	(0.06)	0.30
Housing, Planning & Economic Development	4.00	2.83	(1.17)
Community Services	(3.36)	0.72	4.08
Total (before Carry Forwards and Transfers to Reserves)	111.19	105.46	(5.73)
Carry Forwards Requests			0.31
Proposed Transfers to Reserves			5.42
Total (Including Carry Forwards and Transfers to Reserves)			0

Budget 2021/22

The 2021/22 net budget of £130.07m was approved by Council in February 2021. Quarter 1 budget monitoring to the end of June, showed a projected overspend of £1.9m against the revised budget of £130.08m as shown below.

Current monitoring indicates that the Covid restrictions that remained in place during the first quarter of the year has impacted financial performance of income alongside further demand pressures, the Government income reimbursement scheme will only apply from April to the 30th June which creates exposure for reduced income from the 1st July 2021.

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Economic Development and Resources	10.58	14.01	3.43
Climate and Sustainable Travel	1.23	1.30	0.07
Adults and Council House Building	63.51	63.38	(0.13)
Children & Young People, Communities & Culture	31.78	32.01	0.23
Neighbourhood Services	24.14	24.49	0.35
Transport Services	(3.22)	(3.92)	(0.70)
Planning	2.07	2.71	0.64
Forecast Outturn Variance	130.08	133.98	3.90
Use of Covid Contingency Reserve			(2.00)
Quarter 1 Forecast Outturn Position			1.90

The projected deficit is due to income losses in Heritage Services, combined with Covid demand pressures across services that have been mitigated by the £2m of the Covid contingency reserve.

To mitigate the £1.9m pressure the Council is exploring what in year mitigations are available to prevent further use of reserves, these will be reported through the quarter 2 monitoring to Cabinet.

Analysis of Current Position

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

From 2019/20 the Council revenue support grant has reduced to £0.5m per annum (£31m in 2013/14) as a result we have become more reliant on external income to help fund core Council services. The Covid pandemic has created risk on the Councils reliance on its income through Commercial activity including chargeable services, an overarching aim of this strategy is to diversify income so there is not over reliance on one specific area such as tourism.

6. Drivers of Demand

Covid impact on the Councils income budgets

The Office of National Statistics monthly estimates published on the 12 August 2021 show that GDP increased across all three months at 2.2% in April, 0.6% in May and 1.0% in June 2021. The level of GDP in the UK is now 4.4% below where it was prior to the coronavirus pandemic at the end of 2019. This indicates a steady path to recovery from the easing of restrictions and reopening of businesses.

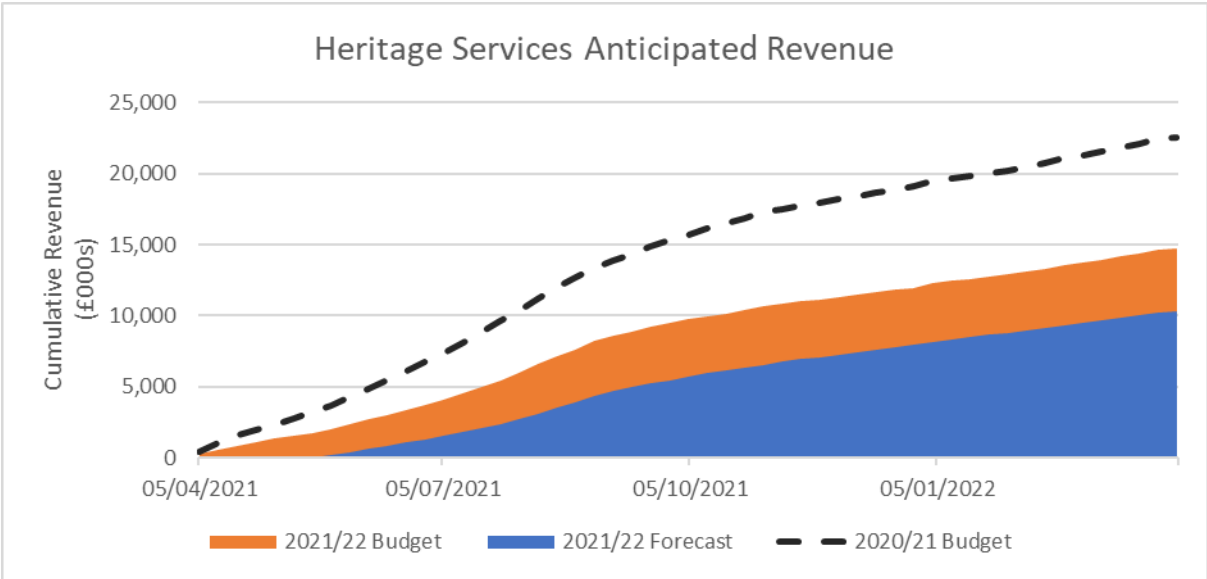
Current performance for the Council’s main income generating services are below:

Heritage Services Income

When the budget was set in late in 2020, it was not anticipated that the Roman Baths, Fashion Museum and Victoria Art Gallery would be closed for the first 6 weeks of the financial year, due to lock-down. This period covered the key periods of Easter and the early-May bank-holiday which usually attract high visitor numbers. Although the budget reflected lower demand due to the pandemic, it did not anticipate the ongoing restrictions, requiring the Roman Baths capacity to remain capped at 20% into the summer.

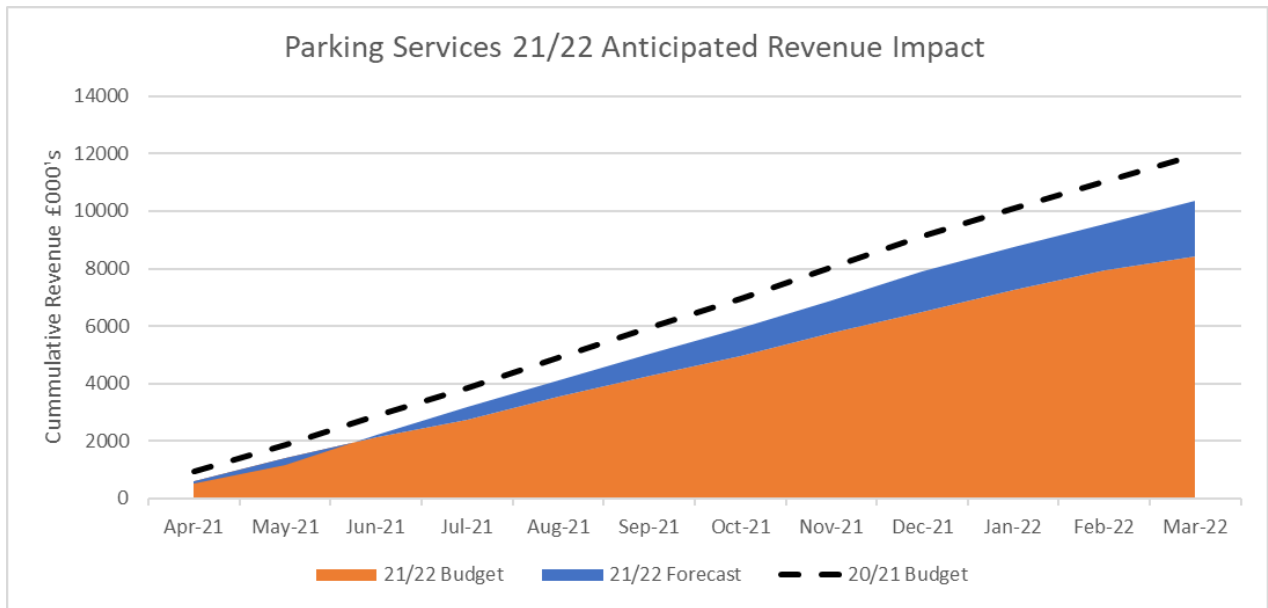
The chart below shows the impact of the lockdown and capacity restrictions on Heritage Services’ income generation; it also demonstrates the positive performance since reopening and that the Service have seen encouraging visitor numbers at the Roman Baths, Fashion Museum and Victoria Art Gallery since these sites reopened in mid-May 2021.

Just over 60% of the £4.5m shortfall in income is mitigated by a combination of in-service cost mitigations and the Local Government Sales Fees and Charges scheme, which ran for Q1 but has now ceased. For context, the chart also shows the pre-pandemic income budget. It is expected to be 2024-25 before income levels return to pre-pandemic levels.



Parking Services Income

Prior to the pandemic, the Parking Services income budget was c£12m. The 2021/22 income budget was rebased to c£8.5m to account for significantly reduced demand. The service is currently projecting a year end £2.5m favourable position due to a large increase in visitors since restrictions were lifted and has seen very positive performance during June and July. The 2022/23 budget has the assumption that parking income will return to pre-pandemic levels and this is a good indication of this change in behaviour. Park and Ride usage is approximately 52% down on 2019, which in turn is contributing to increased car park income as workers in the city centre choose to avoid public transport, with Charlotte Street car park in particular showing a strong yield per space.



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 2021/22 settlement will continue throughout the MTFs period, this is made up as follows:

Grant	B&NES Allocation
Social Care support grant	£4.26m
iBCF Grant	£4.76m

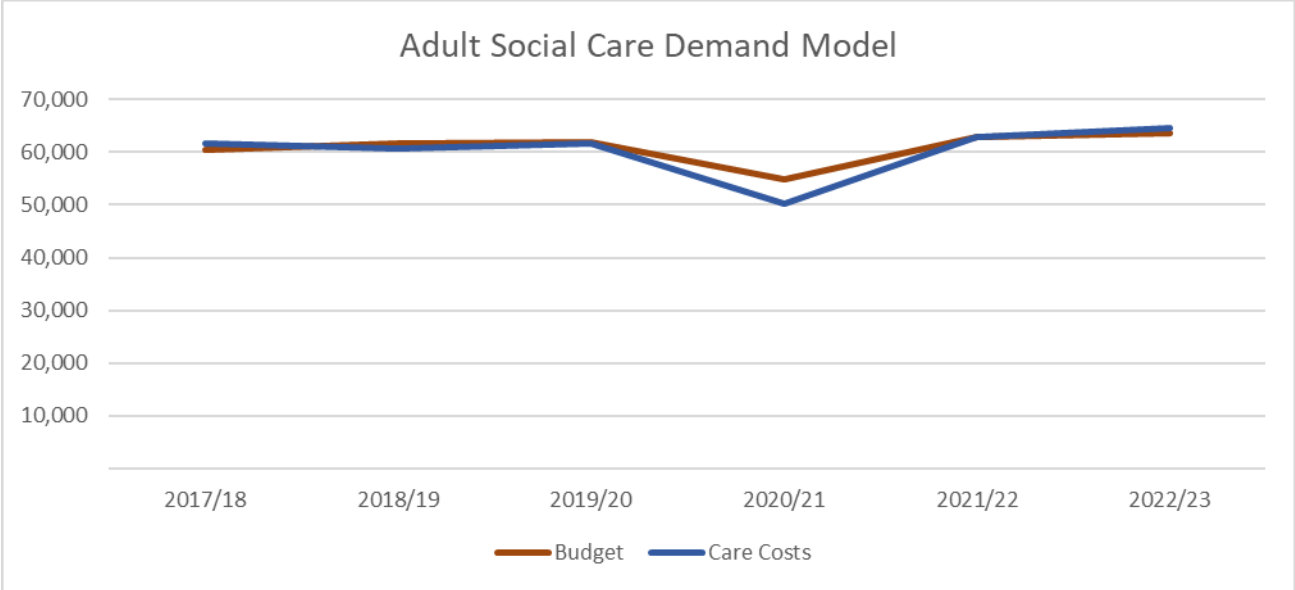
The iBCF grant is part of the pooled budget with the B&NES Clinical Commissioning Group and ring-fenced to exclusively fund Adult Social Care.

Adult Social Care services (ASC) have been greatly affected by the Covid-19 pandemic in both activity and cost, throughout 2019/20 and continuing through 2020/21. Placements resulting from hospital discharges have been funded via the NHS funded Discharge Pathway, which has reflected in lower social care placements being funded from the Social Care budgets. Whilst the impact of Covid-19 on ASC provision is dynamic, the challenges facing ASC nationally as well as locally continue and include factors such as increasing demand, both in activity and complexity, capacity to deliver required care and market stability issues in the independent sector. These challenges are impacting all ASC users and carers and include all support reasons.

During the first part of 2021/22 direct support has continued to be provided to the market through the government infection control funding that allocated £2m to continue cover to 30th September 2021. This is not expected to continue.

The MTFS allocates £12.8m 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 shown that caseload has slowed, but 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 2017/18:



The above graph reflects the 2020/21 impact of Covid-19 and shows that the Council budget and care costs have much closer alignment. Forward demand has been assumed as in previous years but may change as the full impact of the pandemic on future demand (cost and activity) becomes clearer including the impact of long-term isolation on already vulnerable people.

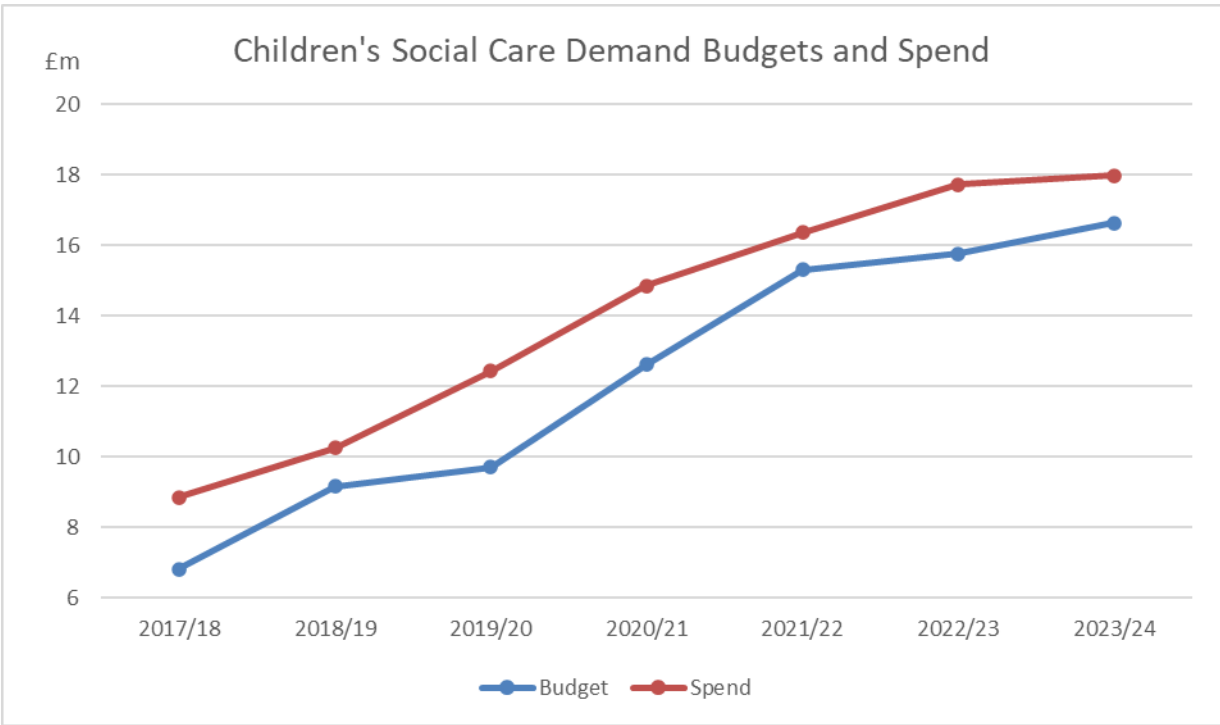
The Council has also embarked on an ambitious programme of service transformation in adult services, much of this integrated with local health service provision. The programme focusses on:

- Early intervention and Community resilience reviewing how ASC links with other services within B&NES and across the community.
- Enhancing the social care front door to support people when presenting for social care needs. The project will review how we can support people regardless of which service they have come from and aim to take a holistic approach rather than a service led response.
- Managing the Councils budget to meet demand needs without overspending through robust needs assessment, care planning and reviews.
- Reviewing the Reablement Service to establish a new service model to meet demand.
- The transition of people from Children’s services to Adult services, this is being undertaken by both services not just adults.

- Community Mental Health Services Framework, this is a 3-year transformation project with an aim to expand and transform services and implement a model that meets demand.

Children’s Social Care

As demonstrated from the graph below Children’s Services expenditure has not been manageable within the budget envelope. A rebasing exercise was completed for the 2020/21 budget, which added £2.1m additional funding to reflect the increasing cost and number of children in care, in addition to the increasing costs of supporting disabled children at home. A further rebase was needed in the 2021/22 budget also, adding a further £2.7m into the demand driven Social Care budgets. The number of children looked after (LAC) by the Council has risen by over 40% in the past 5 years to 188 in 2020/21 (although this higher level is in line with similar authorities). The MTFs allocates £5.3m for demographic and contractual inflationary pressures within Children’s Services over the next five years.



A further area of pressure within Children’s Services is the significant increases in children and young people with SEND. This is adding to the pressure on the Dedicated Schools Grant managed by the Council. The 2020/21 outturn resulted in a DSG cumulative overspend of £5.42m. During 2020/21 the spend on pupils with a Statement or EHCP increased by 23% when budget allocations from the DFE through the High Needs Block allocation increased by 8%. During the first part of 2021/22 the incidence of cases and costs has continued to rise, and predictions are showing that the overspend could increase to as high as £12m. 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.

The overspend is recorded as a specific reserve in the Local Authority (LA) accounts.

The LA has joined with the 3 other South West Council's, to write to the government highlighting the scale of the difficulties being observed across the region.

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. The service will 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. A key enabler for long term cost reduction is the Children's Services Transformation Programme, which has already delivered cost savings in 20/21, and has a full programme to deliver more in 22/23 and beyond.

7. Outlook for Government Grant Funding

Covid Grants and Support

The MTFs assumes that the 2020/21 & 2021/22 Government response and financial support package to Councils was one-off and will not continue in 2022/23. 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 2021/22 confirmed the payment of £0.759m for new housing growth over the previous year, taking the total New Homes Bonus Grant (NHB) to £3.064m for 2021/22. The settlement announced that the uplift for 2021/22 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 table below shows the likely annual remaining funding which is reflected in the MTFs.

	Total New Homes Bonus Grant		
<i>Payment relating to:</i>	2021/22 £'m	2022/23 £'m	2023/24 £'m
2021/22	0.759		
2020/21			
2019/20	1.392	1.392	
2018/19	0.913		
Total	3.064	1.392	0.000

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 2022/23 onwards.

Retained Local Business Rates – 100% Business Rate Retention Pilot

The 2021/22 Local Government Finance Settlement confirmed that the West of England 100% Business Rate Retention Pilot would continue into 2021/22. The

estimated benefit is approximately £3.2m in 2021/22. No further announcements have been made yet by government on whether further extensions will be made past 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.

The 2021/22 Budget included financial risk adjustments 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 announced additional flexibility to Local Authorities in financing any Collection Fund deficit that was forecast in 2020/21 in light of the Covid 19 impact on income. The MTFS factors in the spreading of the forecast 2020/21 collection fund deficit based on the estimate that was made when setting the 2021/22 budget. The position will be reviewed and updated to take account of both the actual 2020/21 outturn and the 2021/22 in year performance of the Collection Fund as part of finalising the Business Rate income forecasts for the 2022/23 budget.

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.

Provisional school allocations have been received from the DfE and show an overall increase of approx. 2.81% in the total allocations. Individual schools are protected under the National Funding Formula (NFF) to a 2% per pupil increase though many will receive a larger increase.

With the introduction of the 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 exists at the end of 2021/22.

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 Schools forum has agreed this transfer every year up to 2021/22.

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 2022/23. This continues the transfers that have occurred in prior years, and would amount to approx. £600k.

The Education Capital Programme has been utilised to direct resources to provide additional SEND places in mainstream schools and extend special school provision. This forms part of our SEN strategy to limit expenditure of expensive independent specialist provision in order to recover the DSG deficit that currently exists.

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

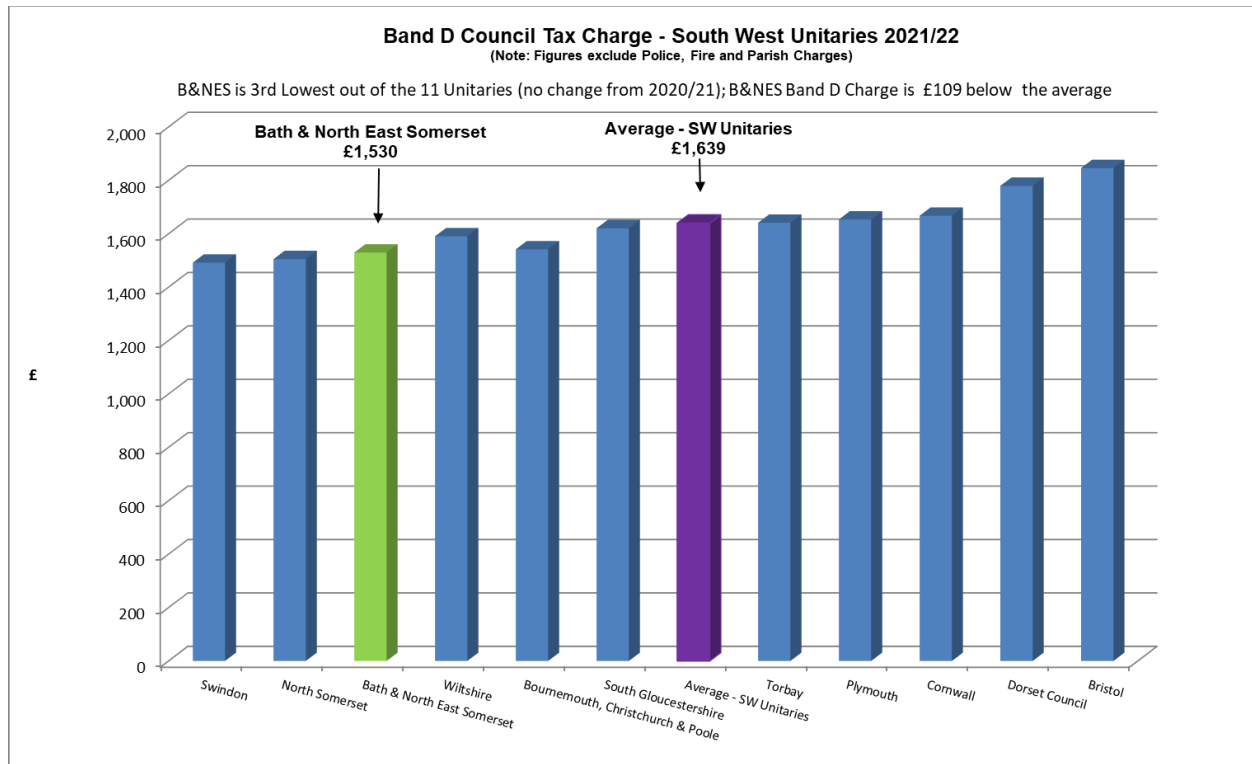
The Better Care Fund is intended to incentivize the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, by reducing 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 £13.3m in 2021/22 a 5.3% uplift on 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 2021/22 Council Tax

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



Council Tax collection fund

The government announced additional flexibility to Local Authorities in financing any Collection Fund deficit that was forecast in 2020/21 in light of the Covid 19 impact on income. The MTFs factors in the spreading of the forecast 2020/21 collection fund deficit over 2022/23 and 2023/24 based on the estimate that was made when setting the 2021/22 budget. The forecast for 2022/23 has been updated to include the improved 2020/21 actual Council Tax collection fund outturn position providing a net surplus to be released of £0.76m. This forecast will be reviewed and updated to take account of the 2021/22 in year performance of the Collection Fund as part of finalising the Council Tax base and income forecasts for the 2022/23 budget.

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, the MTFs assumes that the Council tax base will grow with incremental growth of 1% per annum from 2022/23 onwards.

Adult Social Care Precept

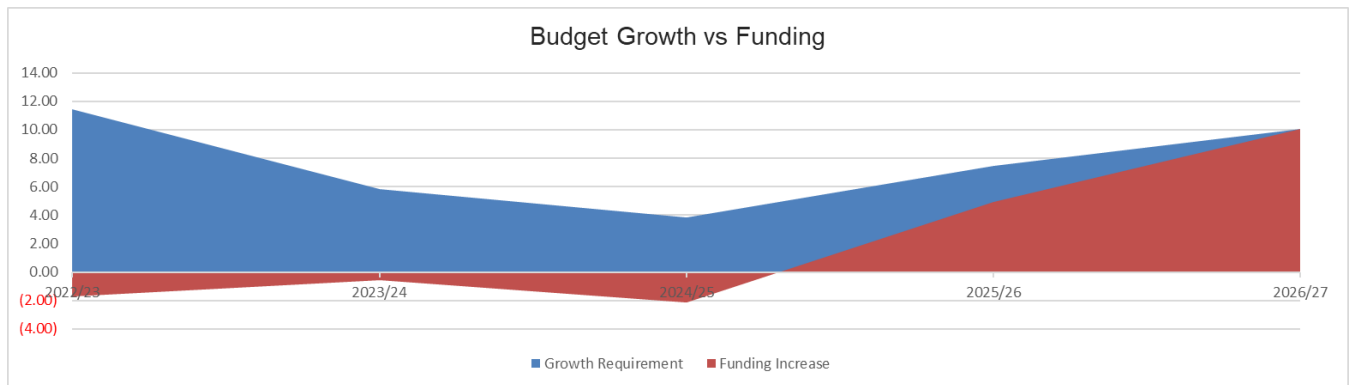
The Government has continued to recognise some of the pressures facing Adult Social Care (ASC) authorities, providing for a one year continuation of the specific increase in the local council tax precept ringfenced to ASC of 2% in 2021/22. There has been no further indication from central Government to extend the precept beyond 2022/23 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
	2022/23	2023/24	2024/25	2025/26	2026/27	
Growth Requirement	11.43	5.83	3.83	7.43	10.04	38.56
Funding Increase	(1.69)	(0.59)	(2.14)	4.92	10.04	10.54
Annual Funding gap	13.12	6.41	5.97	2.51	0.00	28.01
Savings Proposals	1.30					1.30
Remaining Funding Gap	11.82	6.41	5.97	2.51	0.00	26.72

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				
	2022/23	2023/24	2024/25	2025/26	2026/27
Budget Requirement (Previous Year)	130.07	128.38	127.79	125.65	130.58
Budget Adjustments	0.41	0.00	0.00	0.00	0.00
Pay & Pension	1.51	2.07	2.09	2.12	2.15
Demographic Growth	1.78	1.79	1.79	1.79	2.79
Contract Inflation	2.02	2.09	2.16	2.21	2.24
New Homes Bonus Pressure	0.75	0.89	0.00	0.00	0.00
Capital Financing	1.00	1.00	1.00	1.00	1.00
Settlement grant funding	5.55	0.00	0.00	0.00	0.00
Budget pressure / rebasing	(1.61)	(2.01)	(3.20)	0.31	1.86
Draft Budget Before Savings	141.50	134.21	131.63	133.09	140.61
Proposed Savings Plans	(1.30)	(0.09)	0.00	0.00	0.00
Estimated Savings Required	(11.82)	(6.33)	(5.97)	(2.51)	0.00
Budget Requirement	128.38	127.79	125.65	130.58	140.61
Funding of Budget Requirement					
Council Tax	105.87	107.73	111.53	114.89	118.35
Business rates retention	19.09	19.63	21.12	21.69	22.27
Business rates retail relief deficit (20/21) - s31 grant funded	0.00	0.00	0.00	0.00	0.00
Reserve transfer from Business Rates retail relief reserve	0.00	0.00	0.00	0.00	0.00
Reserve transfers From	0.43	0.43	0.00	0.00	0.00
Reserve transfers (To)	3.00	0.00	(7.00)	(6.00)	0.00
Funding of Budget Requirement Total	128.38	127.79	125.65	130.58	140.61

The forecast includes the following cost pressures and assumptions:

- **Pay Inflation** – Estimated 2.00% per annum.
- **Council tax** – Assumed at 1.99% excluding Social Care precept.
- **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** – 2022/23 budget rebasing of income budgets taking account of Covid recovery, 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** – from April 2022 will be developed with the administration as part of the Corporate Strategy and have not yet been factored into the plan.
- **Reserves** – Planned use of £3m reserves to the transitional pressures from reduced income, and £5m commitment against un-earmarked general reserve for unbudgeted Covid pressures.

10. Managing the Medium Term Financial Strategy

Current estimates are that £28.01m 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 £19.54m, including the pre-approved savings of £1.39m. Due to the budget rebasing from income loss this puts 70% of the 5 year MTFS savings in 2022/23 and 2023/24 with £13.12m to find next year.

This gives a challenging target next year which is 10.2% of the estimated net budget of £128.38m. Through early engagement and service planning options are being worked up to address this funding gap through cost reduction and income generation plans.

Budget management 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, Customer Contact - 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 and reduce travel 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 2022/23 Budget proposal.

The following scenario's show how the MTFS base case can be revised to give a realistic and manageable savings profile based on some core assumptions which may change subject to further guidance on Council tax setting and business rates:

Scenario 1

Council tax at 1.99% and no social care precept + utilise £3m of one-off funding to fund income loss transition through temporary use of reserves. Funding repaid in full within the 5-year MTFS period.

Scenario 2

Maintain Council tax and social care precepts at 2020/21 levels (1.99% General and 2% Social Care) 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.

Scenario 3

As scenario 2 with the addition of the business rates pilot continuing for 2022/23, this will enable the Council to retain £3.2m of base budget funding.

MTFS projection from Scenario 1 – 3

Taking in to account the above scenarios the MTFS 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
	2022/23	2023/24	2024/25	2025/26	2026/27	
Annual Funding gap						
Scenario 1 (1.99% Council Tax)	13.12	6.41	5.97	2.51	0.00	28.01
Scenario 2 (+2% Social Care precept)	11.06	4.19	3.57	(0.08)	(2.79)	15.95
Scenario 3 (+£3.2m Business rates retention)	7.86	7.39	3.57	(0.08)	(2.79)	15.95

Summary of changes

Scenario 1:

To manage budget risk, it is recommended to progress plans under scenario 1 as there are factors outside of the Council's control in scenario 2 and 3. Both scenario 2 and 3 will be predicated on the outcome of the provisional settlement announcement from Government.

Scenario 2:

The continuation of a 2% Social Care precept throughout the five-year period would improve the 2022/23 position by £2.06m and £12.06m over five years.

Scenario 3:

The combination of a one-year extension to the business rates pilot and Social Care 2% precept would improve the 2022/23 position by £5.26m and £12.06m over five years.

Following the Government Spending Review and settlement announcement the budgetary assumptions will be refreshed and incorporated into the Councils budget proposal that will be presented to Cabinet and Council in February 2022.

Affordability risk

The use of one-off funding including reserves 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 the impact on Council finances from using reserves to balance the budget for the next two years:

Budget Planning	Future years assumptions					Total
	2022/23	2023/24	2024/25	2025/26	2026/27	
Growth Requirement	11.43	17.65	22.06	7.43	10.04	68.61
Funding Increase	(1.69)	(0.59)	(2.14)	4.92	10.04	10.54
Annual Funding gap	13.12	18.23	24.20	2.51	0.00	58.06
Savings Proposals	1.30					1.30
Use of reserves	(11.82)	(18.23)				(30.05)
Remaining Funding Gap	(0.00)	0.00	24.20	2.51	0.00	26.72

To fund all service inflationary and demand pressures with no further savings the Council would need to spend £30.05m of its reserves. This is 2.4 times the £12,58m of un-earmarked general reserves the Council holds, in addition to balance the budget the Council would need to deliver £24.2m of recurrent savings in 2024/25.

This highlights that one off funding should only be used as a short-term, temporary intervention whilst a permanent solution is implemented, for example to mitigate the timing risk of savings being realised in full part way through the financial year.

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.

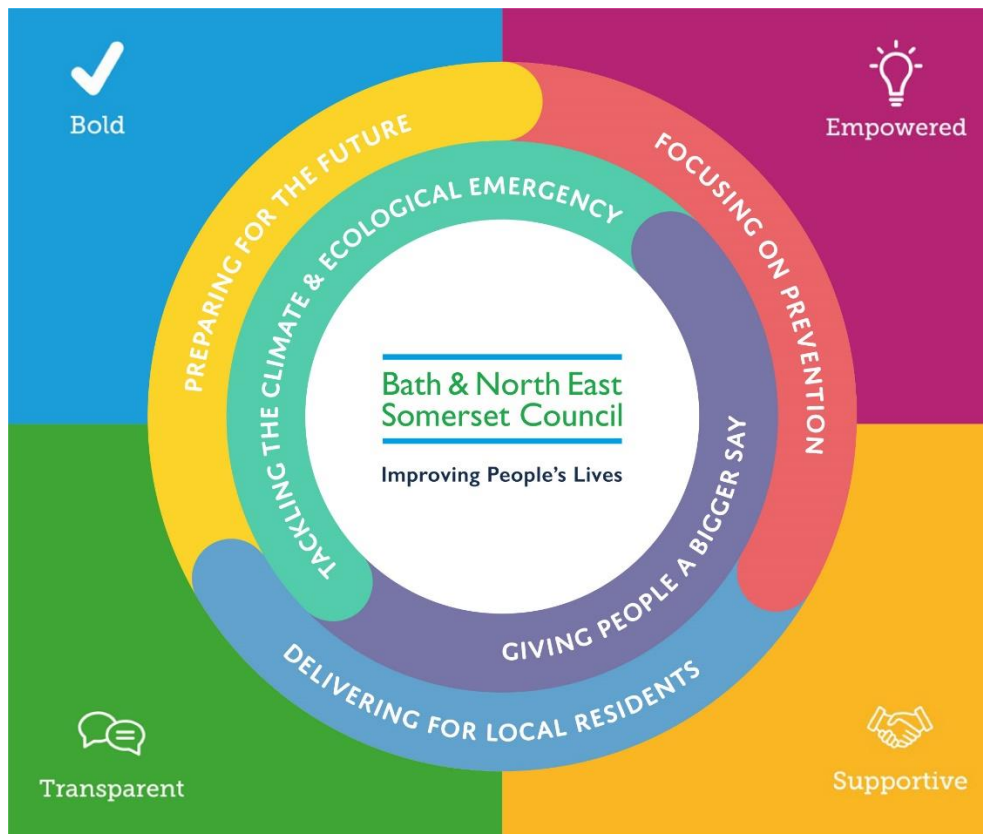
ONE: We have **one** overriding purpose – to improve people’s lives.

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 joined up and 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.
- Deliver the “Preparing for the Future” programme to modernise the council with a focus on improved asset management and flexible working, reduce the need for staff to travel unnecessarily across the region.
- Deliver new ways for our residents, businesses, partner organisations, visitors and internal service teams to interact and receive council information and services, using digital channels.
- Ensuring that we are able to manage labour market demands and fluctuations across our workforce but particularly in operational roles in both social care and neighbourhood services.

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 2021 as part of budget setting:

Capital Schemes for Approval

Cabinet Portfolio: Capital Schemes	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Total £'m
Resources & Deputy Leader	18.813	0.110	0.670	0.000	0.000	19.593
Adult Services	0.050	0.000	0.000	0.000	0.000	0.050
Children's Services	4.770	0.000	0.000	0.000	0.000	4.770
Climate Emergency & Neighbourhood Services	0.919	0.000	0.000	0.000	0.000	0.919
Transport Services	9.755	0.000	0.000	0.000	0.000	9.755
Housing, Planning & Economic Development	31.693	22.356	10.560	1.271	0.000	65.880
Community Services	3.098	0.210	0.130	0.000	0.000	3.438
Corporate Capital Contingency	0.408	0.000	0.000	0.000	0.000	0.408
Total	69.506	22.676	11.360	1.271	0.000	104.813

Capital Schemes for Provisional Approval (Subject to)

Cabinet Portfolio: Capital Schemes	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Total £'m
Resources & Deputy Leader	39.211	5.010	3.500	3.500	3.500	54.721
Children's Services	15.913	0.000	0.000	0.000	0.000	15.913
Climate Emergency & Neighbourhood Services	22.998	1.767	1.365	2.607	0.000	28.737
Transport Services	11.587	9.729	6.874	8.009	6.959	43.158
Housing, Planning & Economic Development	31.815	5.230	3.420	0.615	0.000	41.080
Community Services	4.821	2.001	0.704	0.678	0.021	8.225
Total	126.346	23.737	15.863	15.409	10.480	191.834
Grand Total	195.851	46.413	27.223	16.680	10.480	296.647

The current capital programme that was approved in February 2021 was funded as follows:

Financing	Budget 2021/2022 £'m	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Total £'m
Grant	70.774	10.796	8.976	7.258	4.829	102.633
Capital Receipts/RTB	4.150	1.865	5.700	0.000	0.000	11.715
Revenue	0.202	0.000	0.000	0.000	0.000	0.202
Borrowing	110.694	30.347	11.621	9.308	5.651	167.620
3rd Party (inc S106 & CIL)	10.031	3.405	0.926	0.114	0.000	14.476
Total	195.851	46.413	27.223	16.680	10.480	296.647

Note this does not include slippage from 2020/21 which totalled £35.9m.

An allocation of £1m revenue budget 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 on appropriate revenue expenditure and further adjustments may be made as part of setting the budget for 2022/23 subject to the revised government guidance being published. 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 £2.3m;
- 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.

To manage financial risk the Council holds £12.58m of unearmarked reserves, if unutilised in 2021/22 the MTFs proposes that the Council continues to hold a commitment of £5m of this reserve for unbudgeted financial pressures that may arise from Covid. This reserve will be accessed if unplanned financial pressures cannot be mitigated by government grant or service recovery plans, which would leave a reserve balance of £7.58m 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 2022/23 and anticipated closing balance after the projected use:

	Estimated Balance 31/03/2022	Projected Use in Year	Current Estimated Balance 31/3/23
	£'m	£'m	£'m
Revenue Budget Contingency	2.50	0.00	2.50
Financial Planning and Smoothing Reserve	6.66	3.08	3.58
Transformation Investment Reserve	2.00	2.00	0.00
Restructuring & Severance Reserve	2.18	0.0	2.18

Following on from the Council's 2020/21 Financial Recovery Plan and 2021/22 budget £3m of Financial Planning and Smoothing reserve is being utilised to support the temporary reduction in sales, fees and charges income. Reserves will be fully replenished within the 5-year budget term.

To enable business change and service improvement plans through the Preparing for the Future programme the Transformation and Investment Reserve balance of £2m is proposed to be fully committed to fund the one-off cost of change.

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.

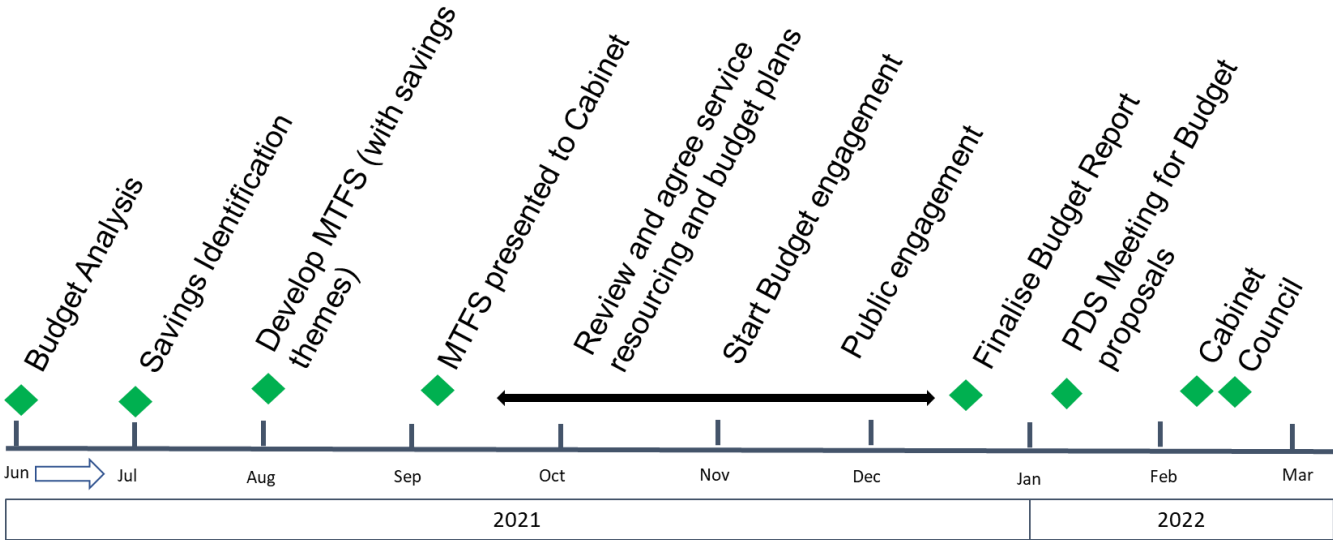
13. Public/Stakeholder Engagement

We will be making more information available on our MTFs for stakeholder engagement in November 2021, this will also be subject to scrutiny by the Corporate Policy Development and 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 diagram below sets out the budget planning timetable.



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
Continued government restrictions in the event of new variants impacting vaccine success	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.
Operational budget pressures due to latent demand and backlog	Possible	High	There is the risk of built up demand on Council services and backlog because of operational activity being diverted to managing the Covid pandemic. This may result in one-off cost pressures to clear the backlog.
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 2021/22. The roll back of the furlough programme could impact business viability and therefore risk of further voids will be monitored closely over the coming weeks and months.
The income from Heritage Services may not recover in the short term.	Possible	High	Continue to monitor income levels and impact on business plan in light of capacity restrictions. We anticipated income will not fully recover in the medium term and growth was built into the medium terms financial plan for the next three years.
Impact on Reserves	Possible	High	Without additional government grant in recognition of Covid related financial pressures there is the risk that Council reserve levels are not enough to manage in-year and future years risk.
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 2021/22 this risk will be partly offset by the extension of the business rate relief scheme for

			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	The short to medium term impacts of Brexit on the Councils supply chain may result in contractual cost pressures from customs tariffs that previously did not apply.
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.