

## Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>10<sup>th</sup> November 2022</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 3373</b>
TITLE:	<b>Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2022 to September 2022</b>	
WARD:	<b>All</b>	

### AN OPEN PUBLIC ITEM

**List of attachments to this report:**

**Appendix 1** – Revenue Monitoring Commentary

**Appendix 2** – Key Scheme Capital Monitoring Commentary

**Appendix 3 (i) & 3 (ii)** – Proposed Revenue Virements & Revised Revenue Cash Limits 2022/23

**Appendix 4 (i) & 4 (ii)** – Capital Virements & Capital Programme by Portfolio 2022/23

## **EXECUTIVE SUMMARY**

### **a) Revenue budget**

The Revenue budget outturn is currently forecast to be £4.5m over budget.

The 2022/23 pay award is expected to be significantly higher than budgeted. The reversal of the Employers' National Insurance increase in-year will offset this in part, but will result in a £2.2m unbudgeted cost to the organisation.

Demand-led placement and package costs continue to cause a significant pressure in Children's Services. Combined with staffing pressures as a result of covering absences within teams and responding to increasing complexity of need, the service is currently forecasting a £5.4m overspend.

Further pressures are being experienced in the Bereavement, Waste, Corporate Estate and Planning Services. High levels of vacancies across the organisation, strong performance in Heritage Services and the Commercial Estate, and increased interest on cash balances and delayed need to borrow are providing favourable mitigations.

The renewal of corporate energy contracts in the midst of the cost of living and inflation crisis is resulting in a large increase in costs across the organisation. These costs are being funded in-year from the inflation contingency included in the 2022/23 budget and an Inflation Reserve set aside as part of the 2021/22 outturn, while the medium-term increase will need to be considered in the 2023/24 budget planning process.

In addition, there is an in-year SEND placement pressure of £5.7m on the Dedicated Schools Grant (DSG). Mitigation plans are being worked up as part of the DFE's Safety Valve programme to recover the ongoing deficit on the DSG over the next 5 years.

Savings of £11.9m were included in the 2022/23 budget. At present £10.3m savings are expected to be delivered, with the majority of the shortfall relating to delays in the Children's transformation project aimed at delivering cost reductions.

### **b) Capital budget**

The current position of the 2022/23 Capital Programme is a forecast of £124.8m against a budget of £154.2m. The variance of £29.4m reflects anticipated rephasing across a number of schemes.

### **c) Council Tax and Business Rates**

There has been a continued reduction in the cost of the Local Council Tax Support Scheme over the first half of the year, in line with a fall in working age claimants, with the cost at the end of September £9.8m which is £0.8m below the budget estimate. The Council Tax Collection Fund surplus is also benefitting from a higher level of chargeable dwellings than forecast when setting the taxbase for 2022/23. Taking both into account, the current forecast is for an in year £2.7m surplus, of which the Council's share is £2.2m. This represents a positive variance of 2% against the 2022/23 budgeted income.

The current in year forecast for the Business Rate element of the collection fund is for a surplus of £0.4m, after allowing for the impacts of s31 grant funding in respect of the retail reliefs and the Covid Additional Relief Fund. The surplus is mainly the result of a favourable position in respect of empty property relief which is currently below budget.

### **d) Council Reserves**

The Council approved 2022/23 revenue budget utilises £5.2m of corporate and service earmarked reserves to mitigate ongoing Covid pressures on the Council's revenue budget.

## **1 THE ISSUE**

- 1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2022/23, using information available as at the end of September 2022.

## **2 RECOMMENDATION**

The Cabinet is asked:

- 2.1 To note the 2022/23 revenue budget position as at the end of September 2022.
- 2.2 To note the revenue virements listed for information only in Appendix 3(i).
- 2.3 To note the capital year-end forecast detailed in paragraph 3.26 of this report;
- 2.4 To approve the allocation of £3m CRSTS Highways Maintenance Challenge Fund grant to fund the increased cost of the Cleveland Bridge repairs as highlighted in paragraph 3.27 of this report.
- 2.5 To note the changes in the capital programme including capital schemes that have been agreed for full approval under delegation listed in Appendix 4(i).

### 3 THE REPORT

3.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.

#### REVENUE BUDGET

3.2 Service Directors have been asked to outline the actual expected outturn for the year and the reasons to date for over / under budget forecasts. For revenue budgets which are forecast to be over budget, the Directors are expected to seek compensating savings to try and bring budgets back to balance.

3.3 A summary by Portfolio of the revenue position as at the end of the second quarter is shown in the table below:

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader of Council	(5.16)	(5.82)	(0.66)
Resources	15.54	16.27	0.73
Economic Development, Regeneration and Growth	0.58	0.54	(0.04)
Climate and Sustainable Travel	1.32	1.23	(0.09)
Adult Services and Council House Building	62.27	62.23	(0.04)
Children and Young People, and Communities	31.43	36.87	5.44
Neighbourhood Services	23.94	24.53	0.59
Transport	(6.08)	(6.40)	(0.32)
Planning and Licensing	2.28	2.44	0.16
<b>Total</b>	<b>126.12</b>	<b>131.89</b>	<b>5.77</b>
<i>Use of Corporate Social Care Contingency</i>	<i>0.00</i>	<i>(1.30)</i>	<i>(1.30)</i>
<b>Quarter 2 Forecast Outturn Variance</b>	<b>126.12</b>	<b>131.59</b>	<b>4.47</b>

Note: Some of the figures in this table are affected by rounding.

3.4 The current **year-end** forecast is a £4.47m over budget position. This position reflects the full utilisation of the remaining Corporate Social Care Contingency budget to mitigate Children Social Care pressures.

3.5 To mitigate the £4.5m pressure the Council is exploring what in year mitigations are available to prevent further use of reserves, this will be governed through a Financial Recovery Board that will maintain strategic oversight with mitigations reported through the quarter 3 monitoring to Cabinet. In the event the above budget position cannot be fully mitigated the Council's Revenue Budget Contingency Reserve and Covid Contingency Reserve will need to be utilised, subject to approval.

#### Portfolio Commentary

3.6 Key variances and associated actions by Portfolio are as follows, a more detailed breakdown can be found in Appendix 1:

##### **Leader of the Council (£0.66m under budget, £0.66m favourable movement)**

The Leader of the Council portfolio holds Events, World Heritage and External Affairs and Partnerships budgets. All three cash limits continue to forecast a broadly on budget position. Heritage Services are now held within this portfolio

and are forecasting a £0.66m favourable position resulting from strong summer visitor numbers.

**Resources (£0.73m over budget, £0.64 unfavourable movement)**

The expected 2022/23 pay award based on the Local Government Employer's final offer to unions is currently forecast in this portfolio against Corporate Budgets. The estimated unbudgeted pressure resulting from this is £2.5m, partially offset by the in-year reversal of the National Insurance increase of £0.3m. Costs associated with void properties, including the vacant former school site at Culverhay, result in a forecast £0.44m over budget position in the Corporate Estate. These pressures are partially offset by savings on licensing costs in ICT, lower borrowing costs associated with delays in borrowing for capital projects, and interest earned on cash balances. Rental income on the Commercial Estate is also greater than budgeted (£0.47m).

**Economic Development, Regeneration and Growth (£0.04m under budget, £0.02m unfavourable movement)**

Vacancies within the Regeneration service are resulting in a minor forecast underspend for the portfolio.

**Climate and Sustainable Travel (£0.09m under budget, £0.11m favourable movement)**

Vacancies across all services are resulting in a minor forecast underspend for the portfolio.

**Adult Services and Council House Building (£0.04m under budget, £0.02m favourable movement)**

The current forecast position for Adult Social Care is balanced as the underlying variances will be covered by a transfer from the Adult Social Care Reserve funds. Adverse variances are being forecast in the specialist services, Learning Disabilities and Autism Pooled service (£1.5m), Physical Disability & Sensory Impairment (£0.40m) and Mental Health (£65k). This reflects the increasing number of package placements (activity and cost) now being seen in line with continued demand pressures being experienced across the health and social care system. All services are awaiting decisions on a number of Continuing Health Care Cases which, if agreed, would improve the forecast position. Referrals to the services are increasing in complexity which adds to the budgetary pressure. There is also an underlying adverse variance in the budgets for our Community Resource Centres and Extra Care Units (£1.1m). This is due to the increased use and cost of agency staff. Recruitment issues and high sickness levels within the service have contributed to this high agency usage. Intensive recruitment work is planned for the remaining 6 months of the year to attract permanent staff and reduce agency spend. Funding for a Hospital Discharge pathway was agreed by the Integrated Care Alliance (ICA) board for 2022-23, transformation work is taking place to determine a longer-term system approach to this through prevention and early intervention.

An increased level of demand is now being seen and is expected to cause continued pressure on existing budgets together with the inflationary pressures being seen in the provider market. Work on the Cost of Care review is now well

progressed, and this will help to determine future requirements under the present social care reforms

Housing are forecasting a £0.04m favourable budget position and is a result of staffing underspends.

**Children and Young People, and Communities (£5.44m over budget, £3.03m unfavourable movement)**

The main driver of this over budget position is the continuing and increasing pressures from 2021/22 across the demand-led placement and package budgets totalling £3.20m.

Pressures are due to the increased demand (38% rise in the numbers in Residential placements from 2021/22 to date) and increased packages of care and support costs needed, due to the increased needs our Children and Young People are presenting with. There are also continued increased costs as a result of the complex packages of care needed for those with the highest need in the Disabled Children's Team. Pressures from supporting unaccompanied asylum seeker children are also included totalling £0.17m.

Staffing pressures across the frontline areas of Children's Social Care total £0.96m. This is the result of covering absences within teams, whilst also responding to increasing demand levels and complexity of need. Across Children's Services and Education there is pressure on staffing budgets for 2022/23 of £1.20m.

Home to school transport has been subject to ongoing and worsening market failure leading to upward cost pressures of £0.78m, underlying forecast is £1.1m adverse, reduced by one of use of corporate social care contingency of (£364k).

This forecast includes the pressure of £0.92m as a result of delayed delivery of cashable savings in relation to the planned transformation savings budgeted. These are in relation to increasing the usage and availability where appropriate of Foster Care provision. The Transformation Programme has delivered £0.92m cost avoidance savings in 2022/23, but these will not convert to cashable savings until 2025/26 due to the cohort age to which they relate.

There has been in-year mitigation of additional health funding, and use of Covid Reserves totalling £0.97m.

Customer Services are forecasting a pressure of £0.08m linked to staffing levels.

**Schools DSG (£5.69m over budget, plus an overspend of £13.44m carried forward from 2021/22)**

The DSG has a forecast overspend of £5.693m in 22/23 made up of significant pressures on SEND. The SEND pressures are estimated based on current pupils identified with Education, Health, and Care (EHC) Plans of £6.8m however mitigating actions have identified £1.1m of savings.

The local Authority has submitted its first draft of a recovery plan to the DFE as part of the Safety Valve Programme, and we are working with the DFE currently in order to gain sign off for this. The Safety Valve Programme will provide

additional support and funding to the Local Authority to eradicate the deficit over a number of years.

Further work on opening the provision of local SEND places at schools in the area will help reduce the pressure and extensive analysis of the specific cost pressures is being conducted to look to reduce the overspend. Bids for new free schools as part of a DFE programme have also been made with a bid for both an Alternative provision schools and new Special School submitted.

Any overspend on the DSG is currently ringfenced to the grant allocation and the Department for Education (DFE) have issued guidance to restrict the supporting of the pressures from council revenue funding. Further guidance is expected to be released regarding this by the DFE and DCLG shortly.

**Neighbourhood Services (£0.59m over budget, £0.16m unfavourable movement)**

The main crematorium chapel at Haycombe was closed between April and October for major capital improvement works and has since reopened. As a result, there was a significant reduction in cremations and memorial sales in Bereavement Services. Both Waste and Parks services are undergoing a regrading exercise for some of their staff which will create an in-year pressure on staffing budgets. These pressures are partially offset by surplus recycling income and reduced tonnages on waste disposal costs.

**Transport (£0.32m under budget, £0.30m favourable movement)**

Staff vacancies across Parking Services, Public and Passenger Transport and Network and Traffic Management, combined with additional income from the Traffic Management Service are more than offsetting £0.44m of parking income shortfall.

**Planning and Licensing (£0.16m over budget, £0.38m unfavourable movement)**

The Planning and Licensing services both have staff vacancies at present, which are partly offsetting a significant £0.36m forecast income shortfall from planning application fees.

**REVENUE BALANCES, CONTINGENCY AND RESERVES**

3.7 The current forecast revenue position includes planned and approved use of earmarked reserves as set out in the table below.

**Key Reserves**

3.8 The following table shows the balances of key reserves at the beginning of the year, planned use, and expected balance at the year-end based on current forecast:

	<b>Balance as at 01/04/2022 £'m</b>	<b>Projected Use / Commitments £'m</b>	<b>Estimated Balance 31/03/2023 £'m</b>
Revenue Budget Contingency	3.74	(0.54)	3.20
Financial Planning and Smoothing Reserve	3.56	(1.38)	2.18
Transformation Investment Reserve	2.40	(2.40)	0.00
Covid Contingency Reserve (Govt grant)	5.57	(3.15)	2.42
Restructuring & Severance Reserve	1.90	0.00	1.90

### Reserves and Flexible Capital Receipts

3.9 Flexible Capital Receipts are being utilised for revenue spend that results in ongoing revenue savings. A five-year estimated use of £11.5m was agreed as part of budget setting in February 2022, this has now been updated to reflect the re-profiled requirement and re-phasing into 2022/23 as follows:

	<b>Actual Usage 2017/18 to 2020/21 £'m</b>	<b>Actual Usage 2021/22 £'m</b>	<b>Available Balance £'m</b>	<b>Est Total Usage £'m</b>
Flexible Capital Receipts	7.93	0.16	3.41	11.50

3.10 Unapplied capital receipts of £3.129m was carried forward from 2021/22 and £0.205m has been received in 2022/23 so far with a further £4.541m budgeted for receipt in 2022/23.

### General Fund Un-Earmarked Reserve

3.11 The General Fund Un-Earmarked Reserve is retained to meet the Council's key financial risks. The risk assessment has set a range of between £11.9m and £13.2m to meet those risks in the 2022/23 financial year. The reserve has a current uncommitted balance of £12.6m in line with the level reported in the 2022/23 Budget Report.



## **SAVINGS PERFORMANCE**

- 3.12 The 2022/23 revenue budget approved savings of £11.87m. Delivery of these savings are monitored throughout the year, with £10.34m forecast as achieved at the end of September, representing 87% delivery. Of the £1.53m not current achieved, £0.09m are being mitigated through savings elsewhere in the respective service, £0.97m of savings are delayed and £0.47m are resulting in unavoidable pressures. The most significant undelivered savings are £0.92m of Children's Transformation Project savings (delayed) and £0.3m of Adults Transformation Project savings (unavoidable pressure).
- 3.13 The Council's financial position, along with its financial management arrangements and controls, are fundamental in continuing to plan and provide services in a managed way, particularly in light of the medium-term financial challenge. Close monitoring of the financial situation provides information on new risks and pressures in service areas, and appropriate management actions are then identified and agreed to manage and mitigate those risks.

## **Revenue Budget Virements**

- 3.14 Any revenue budget virements which require Cabinet approval are listed in Appendix 3(i). Technical budget adjustments are also shown in Appendix 3(i) for information purposes, as required by the Budget Management Scheme. Appendix 3(ii) details the reallocation of cashlimits to reflect the Cabinet Portfolio changes announced at the September Cabinet meeting.

## **COUNCIL TAX, COUNCIL TAX SUPPORT AND BUSINESS RATES**

- 3.15 The number of people claiming Local Council Tax Support (LCTS) has continued to fall since the peak experienced in 2020/21 as a result of the economic impact of the pandemic. The 2022/23 tax base allowed for the same number of recipients as at the end of November 2021 to continue into 2022/23 with budgeted costs of LCTS set at £10.56m. The cost at the beginning of April was £10.20m and there has been a gradual reduction over the first six months, in line with a fall in working age claimants, with the cost at the end of September £9.78m. This is currently £0.78m below the budget estimate which would lead to a Council Tax Collection Fund surplus if the position remained at this level at year end. The number of working age claimants at the end of September was 5,881 compared to the budget assumption of 6,385. The reduction is due to claimants ceasing to be entitled to LCTS, for example where they have returned to employment or their income has increased.
- 3.16 The actual outturn position on LCTSS and the impact on the Council Tax collection fund will depend on a number of variables, including the change in number of claimants and the period claimants remain eligible for support whilst seeking employment and this will continue to be monitored closely during the year.
- 3.17 The Collection Fund is also benefitting from a higher level of chargeable dwellings than forecast when setting the taxbase for 2022/23. Taking both the reduction in LCTSS claimants and the level of chargeable dwellings into account, the current forecast is for an in year £2.7m surplus on the Collection Fund in respect of Council Tax, of which the Council's share is £2.2m. This represents a positive variance of 2% against the 2022/23 forecast income.

- 3.18 The resource demand required to administer the government's energy rebate scheme during the first half of this financial year has led to a backlog in the processing of some Council Tax exemptions and discounts. The forecast surplus could reduce as the backlog is addressed and an updated position will be reflected in the third quarter budget monitoring report.
- 3.19 The Council's share of the improved 2021/22 Council Tax Collection Fund final outturn position of £0.26m, as reported to Cabinet in July, and the adjustment for the three-year spreading of the 2020/21 deficit of £0.54m, has been reflected in the Medium Term Financial Strategy update which is also being reported to this meeting.

### **Business Rates**

- 3.20 The government announced, as part of the Chancellor's Budget Statement in October 2021, that it would introduce a new retail, hospitality and leisure business rate relief scheme for 2022/23. This follows previous relief schemes for these businesses that operated during 2020/21 and 2021/22. The 2022/23 scheme provides for 50% business rates relief, capped at £110,000 per business for eligible properties.
- 3.21 The Council will be recompensed for the reduction in business rate income arising from this relief via a s31 compensation grant. As at the end of September retail relief of £4.1m had been granted. This is lower than the £9.0m budget estimate due to changes in eligibility criteria received after the original estimate was made. This will lead to a surplus in the Collection Fund in 2022/23 with a corresponding reduction in s31 compensation grant income which will be smoothed through the business rate reserve.
- 3.22 The government announced a new £1.5bn Covid-19 Additional Relief Fund (CARF) in March 2021. The fund is available to support those businesses affected by the pandemic, but that are ineligible for existing support linked to business rates. Guidance on the fund was issued on 19 December 2021 and the relief will be processed during 2022/23. The CARF allocation for Bath & North East Somerset area is £4.3m of which the Council's share is £4.0m. The actual allocations made as at the end of September are £4.02m. The negative impact on the Collection Fund of granting the relief will be fully mitigated by s31 compensation grant received from the government.
- 3.23 Empty property relief was £4.7m at the end of September which is a reduction of £0.5m on the 2021/22 year end position and is below the £5.8m allowance included when setting the business rate income forecast for 2022/23. The forecast overall impact on the business rates collection fund position will be reviewed during the remainder of the year and the position in relation to reliefs will be closely monitored.
- 3.24 Taking these factors in account, the current in year forecast for the Business Rate element of the collection fund is for a surplus of £0.4m, after allowing for the net impact on s31 grant funding in respect of the retail and CARF reliefs.
- 3.25 The table below shows the overall forecast position on the Collection Fund for Business Rates. Including the surplus carried forward from the 2021/22 outturn position and the adjustment for 3-year deficit spreading, it shows an overall projected surplus of £4.3m of which the Council's share is £4.1m.

<b>Business Rates Collection Fund</b>	<b>Total (£m)</b>	<b>B&amp;NES Share (94%) (£m)</b>
Collection Fund - Projected 2022/23 In Year Surplus	-1.3	-1.2
<b><i>Less impacts of reliefs funded through s31 grant:</i></b>		
Reduced Retail Relief	4.9	4.6
Covid Addition Relief Fund	-4.0	-3.8
<b>In Year Surplus after Extended Retail Relief &amp; CARF s31 grant funding</b>	<b>-0.4</b>	<b>-0.4</b>
2021/22 Surplus carried Forward	-4.9	-4.6
3 Year Deficit Spreading Adjustment	1.0	0.9
<b>Total Projected Surplus</b>	<b>-4.3</b>	<b>-4.1</b>

3.26 As set out in the Budget Report, 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 and this position will be reflected in the 2023/24 budget. The balance on the Business Rate Reserve as at 1<sup>st</sup> April 2022 was £5.942m, this includes the £2.2m transfer from the reserve approved in the 2022/23 budget report. The reserve is currently forecast to reduce to £0.5m by year end, due to the required smoothing of the s31 grant timing impacts, with the reserve returning to £5.9m in 2023/24 after the forecast Collection Fund surplus is transferred in.

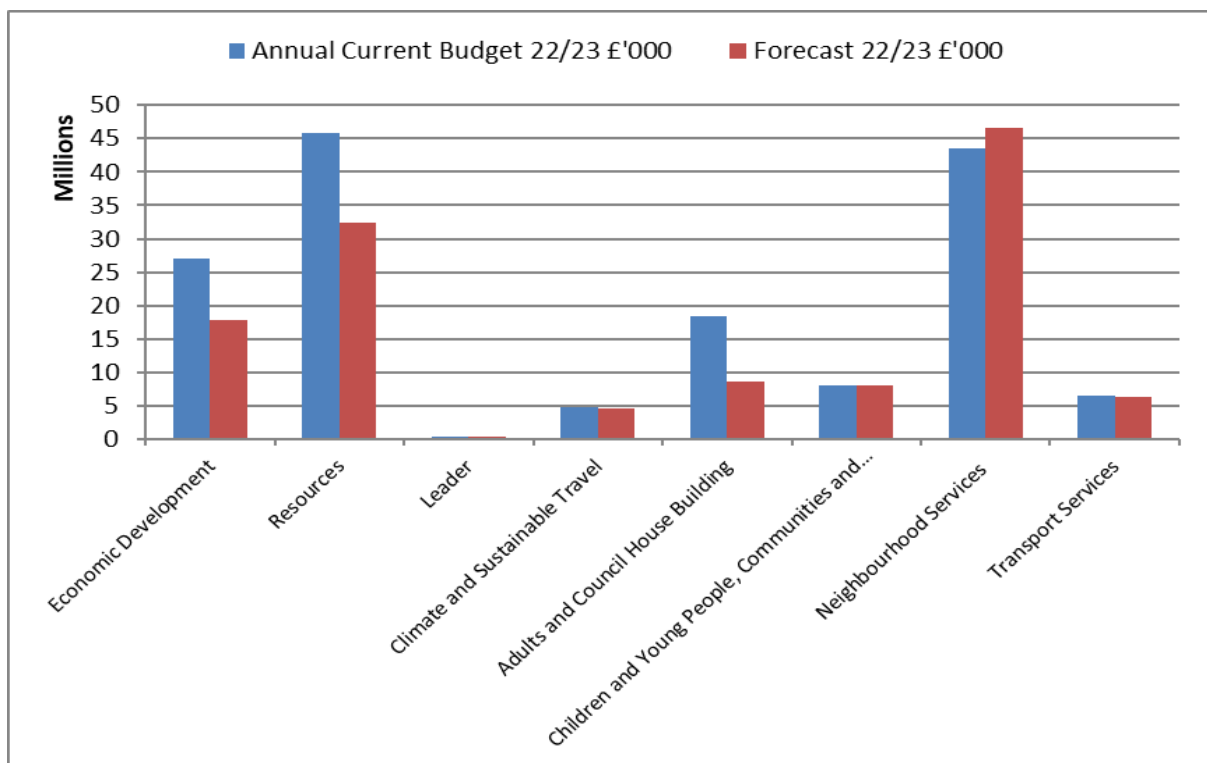
## **CAPITAL BUDGET**

3.27 The current position of the 2022/23 Capital Programme is a forecast of £124.8m against a budget of £154.2m. The variance of £29.4m is largely made up of project slippage which is detailed below. There have been more extensive additional works than originally forecast on Cleveland Bridge to enable the bridge to reopen, this has caused a £3m in year adverse variance against the project. The additional costs of the project will be covered from the CRSTS Maintenance Challenge Fund with WECA and DfT agreement. The following table shows a summary of the current position by Cabinet Portfolio. The full breakdown of the Capital Programme by Portfolio can be found in Appendix 4(ii) with key scheme commentary in Appendix 2. Appendix 4(i) sets out budget changes actioned since the February Budget setting.

Portfolio Summary Monitor	Annual Current Budget 2022/23	Forecast 2022/23	In-Year Variance 2022/23	Forecast Re-phasing to 2023/24	Other Variance 2022/23
	£'000	£'000	£'000	£'000	£'000
Economic Development, Regeneration & Growth	26,973	17,880	9,093	9,093	0
Resources	45,731	32,382	13,348	13,348	0
Leader	364	364	0	0	0
Climate and Sustainable Travel	4,775	4,630	145	145	0
Adults and Council House Building	18,332	8,577	9,755	9,755	0
Children and Young People, Communities and Culture	7,993	7,993	0	0	0
Neighbourhood Services	43,520	46,520	(3,000)	0	(3,000)
Transport Services	6,489	6,438	51	51	0
<b>Grand Total</b>	<b>154,175</b>	<b>124,783</b>	<b>29,392</b>	<b>32,392</b>	<b>(3,000)</b>

Note: Some of the figures in this table are affected by rounding

The graph below illustrates the value and forecast against budget for all in year capital budgets by Cabinet Portfolio:



## Capital Commentary

3.28 A number of schemes are expecting re-phasing into next financial year, the key in-year variances on the programme being:

- **Resources** - £11.1m variance for Property Company Investment, as the Aequus construction activity forecast expects larger schemes now to progress from

2023/24 onwards, resulting in later draw-down of loans. Proposals for Commercial Estate Refurbishment have been developed and prioritised, with up to £2m of works now expected to be delivered in 2023/24.

- **Economic Development, Regeneration & Growth** - £4.6m variance for Bath Quays North reflects programmed slower scheme delivery while viability continues to be assessed and the £4.5m rephasing on Bath Western Riverside results from a revised delivery programme.
- **Adults & Council House Building** – The Social Rent Programme budget approval gave flexibility to allow full delivery in 2022/23. As plans have advanced during the year, rephasing of £9.7m to future years has been identified to align to the current forecast delivery profile.
- **Neighbourhoods** - £3m adverse variance on Cleveland Bridge as highlighted above. The additional costs of the project will be covered from the CRSTS Maintenance Challenge Fund with WECA and DfT agreement, and budget will be allocated following the approval set out in recommendation 2.4 of this report.

## RISKS

The key risks to the budget were outlined in the Councils 2022/23 Budget Report, in compliance with the Council's decision-making risk management guidance. These have been reviewed and are listed below, along with any additional emerging risks:

Risk	Likelihood	Impact	Risk Management Update
Reinstated 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	Likely	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. There are risks in the retail & hospitality sector from a challenging labour market that is impacting recruitment to these sectors, so this may have an impact on business viability and income from Council tenants.
Contract inflationary pressure	Likely	High	With increase in wage, energy and fuel costs, Council contracted services are at risk of above budget price increases. This is an economic risk that has been recognised in the budget with a corporate inflation contingency for known areas that cannot be mitigated through activity management. Capital Schemes may need to be paused due to unfunded viability gaps due to increased supply chain costs.
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 changing customer expectations and international travel. We anticipated income will not fully recover in the medium term and growth was built into the medium terms financial plan between 21/22 and 24/25.

Impact on Reserves	Possible	High	Without additional government grant in recognition of unfunded inflationary pressures there is the risk that Council reserve levels are not enough to manage in-year and future years risk.
Interest rates increase	Likely	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFS. Borrowing rates have increased by around 2% since the start of the financial year with increased volatility in recent weeks following market concern over the UK economy and public finances. The latest forecast from our treasury management advisors is that borrowing rates will remain under upward pressure in the short term on inflation and central bank policy expectations, and investor uncertainty. Yields are forecast to fall slightly over the medium term as weak growth places pressure on central banks to ease policy. The Council will continue to consider shorter term borrowing options alongside the PWLB.
Volatility and uncertainty around business rates	Likely	High	The impacts of the current economic challenges will increase the volatility and uncertainty around business rate income. In 2022/23 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 and labour market may result in contractual cost pressures from customs tariffs that previously did not apply.
Funding pressures through WECA, ICB 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.

## 4 STATUTORY CONSIDERATIONS

4.1 The annual medium-term financial planning process allocates resources across services with alignment of these resources towards the Council's corporate priorities. This report monitors how the Council is performing against the financial targets set in February 2022 through the Budget setting process.

## 5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

## 6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

6.2 The substance of this report is part of the Council's risk management process. The key risks in the Council's budget are assessed annually by each Director, with these risks re-assessed regularly as part of the budget monitoring process.

## 7 CLIMATE CHANGE

7.1 The Medium Term Financial Strategy and budget process aligns resources towards the corporate priorities and objectives set out in the Corporate Strategy, which includes tackling the climate emergency. This report monitors the Council's financial performance against those budgets and therefore does not include any decisions that have a direct impact on Climate Change.

## 8 OTHER OPTIONS CONSIDERED

8.1 None

## 9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Directors, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

9.2 Consultation was carried out at meetings and via e-mail.

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<b>Background papers</b>	N/A
<b>Please contact the report author if you need to access this report in an alternative format</b>	