Bath & North East Somerset – Medium Term Financial Strategy 2023/24 -2027/28

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 uncertainly 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.

Financial management following the Covid pandemic 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 responded to this challenge with a robust set of in year recovery measures that not only delivered a balanced budget in 2021/22 but also made a positive contribution of £4.03m to Council reserves. 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 forthcoming budget statement. 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 2023/24. 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 2021/22 the budget had a savings requirement of £8.48m, against this target the Council delivered savings of £7.89m (93%) with the balance rephased to 2022/23 and mitigated through other budget reductions. As a result of the ongoing budget challenge the 2022/23 budget requires the delivery of £11.87m in savings and income generation plans.

The MTFS base case as set out in the report (section 9) estimates that the Council will need to find up to £36.00m (including the £2.32m already identified) in savings over the next five years. This is based on the assumption that Council tax increases of 2.99% remain for the spending review period up to 2024/25 with Council tax reverting to 1.99% from 2025/26.

The main contributing factor that is driving the budget gap is the rising inflationary pressures as a result of the cost-of-living crisis alongside the need to operate with a lower commercial income base budget. In addition, the Council continues to see demand and activity rise for essential Social Care services.

In the shorter term the profile of the savings shows a requirement of £24.09m over the next two years (£19.43m in 2023/24 of which there are planned savings of £2.32m, followed by £4.66m in 2024/25). This gives a front-loaded profile after taking account of the increases in pay and contract inflation.

To manage this risk section 10 of the report sets out the savings range and the level that has been used for planning purposes.

The current MTFS base case includes increases of 1.99% per annum in Council Tax for each year of the plan. Adult Social Care Precept of 1% has been added for

2023/24 and 2024/25 in line with the government spending review and three-year settlement.

To manage financial risk the Council holds £12.58m of unearmarked reserves, if unutilised in 2022/23 the MTFS proposes that the Council makes an assessment of inflationary risk that is in addition to the amount built into the revenue budget proposal and holds a commitment against unearmarked reserves.

The Council holds Revenue Budget Contingency and Financial Planning / Smoothing reserves that enable one-off transitional funding to meet revenue costs. Over the life of the MTFS these reserves when drawn down will be replenished to ensure financial resilience and availability for future years budgets. 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 in line with the revised government guidance covering the period until the end of the 2024/25 financial year.

Capital spending will focus on the delivery of priority schemes within affordability levels, the 2022/23 Capital programme 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 2023/24 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

2021/22 Outturn

The Council delivered a favourable outturn position of £4.03m as follows:

Portfolio	Revised Budget £m	Outturn £m	Variance Over / (Under) £m
Economic Development and Resources	5.61	7.39	1.78
Climate and Sustainable Travel	1.10	0.77	(0.33)
Adults and Council House Building	56.90	52.84	(4.06)
Children & Young People, Communities & Culture	40.95	43.74	2.79
Neighbourhood Services	24.80	25.44	0.64
Transport Services	(2.90)	(7.38)	(4.48)
Planning	2.12	2.49	0.37
Total (before Carry Forwards)	**128.58**	**125.29**	**(3.29)**
Carry Forward Requests (underspends)			0.43
Carry Forward Requests (overspends)			(1.17)
Total (including Carry Forwards)			**(4.03)**

The £4.03m underspend was transferred to corporate earmarked reserves to smooth park & ride contract annual income risks during the Covid recovery period and to provide for the significant increase in energy inflation in 2022/23.

Budget 2022/23

The 2022/23 net budget of £126.74m was approved by Council in February 2022. Quarter 2 budget monitoring to the end of September, shows a projected overspend of £4.5m against the revised budget of £126.12m as shown below.

Current monitoring highlights the impact of inflationary and demand pressures on Council services, which have continued to increase since budgets were approved in February 2022.

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
Total	**126.12**	**131.89**	**5.77**
Use of Corporate Social Care Contingency	*0.00*	*(1.30)*	*(1.30)*
Quarter 2 Forecast Outturn Variance	**126.12**	**130.59**	**4.47**

The main overspend is in Children's Services where Demand-led placement and package costs continue to cause a significant pressure. 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.

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.

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.

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.

<u>Analysis of Current Position</u>

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

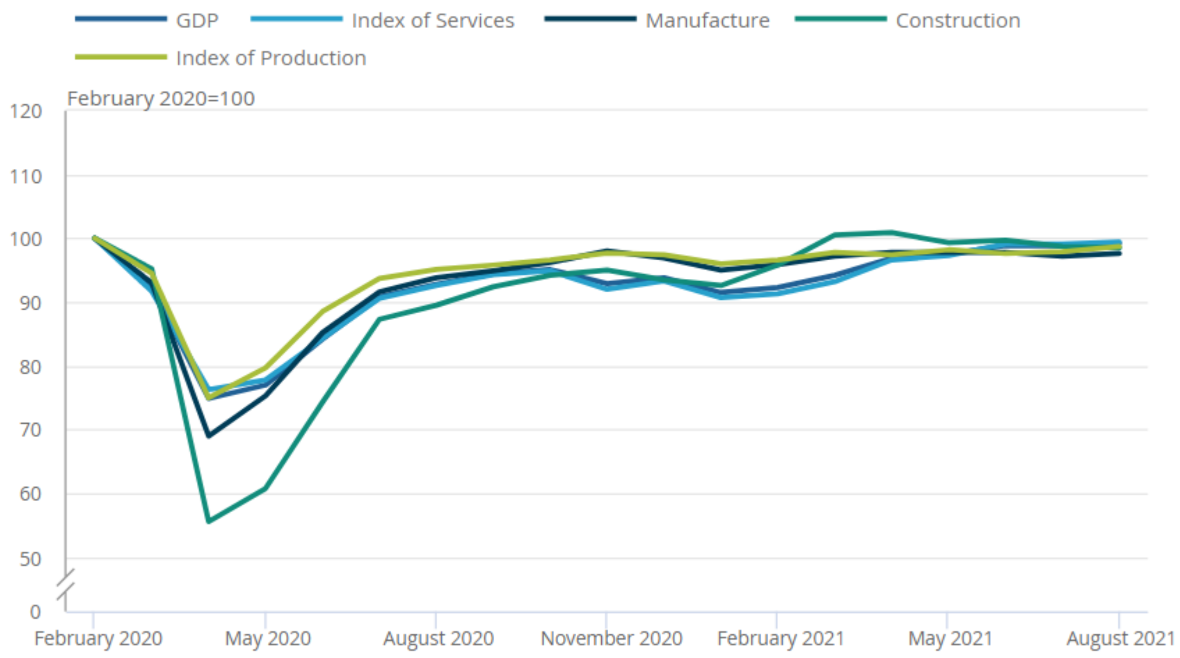
From 2019/20 the Council revenue support grant has reduced to £0.5m per annum (£31m in 2013/14) as a result we have become more reliant on external income to help fund core Council services. The Covid pandemic has created risk on the Councils reliance on its income through Commercial activity including 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

The Economic outlook

Whilst the UK economy made a good recovery following the Covid pandemic this has led to an increase in activity and shortage of supply at an international level resulting in a rise in inflation. In addition, the war on Ukraine has impacted on energy supply and price that has driven inflation to its highest level since the 1970's.

Monthly gross domestic product (GDP) and components index, seasonally adjusted, UK, February 2020 to August 2021



Source: Office for National Statistics - Monthly GDP

The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to September 2022, up from 9.9% in August and returning to July's recent high. On a monthly basis, CPI rose by 0.5% in September 2022, compared with a rise of 0.3% in September 2021.

The high levels of inflation have impacted on the cost of running the Council and its budgets resulting in an increase in staffing costs for employed and contracted employees, also on its supplies and services provided through contracts. This has been a contributing factor to the current forecast overspend.

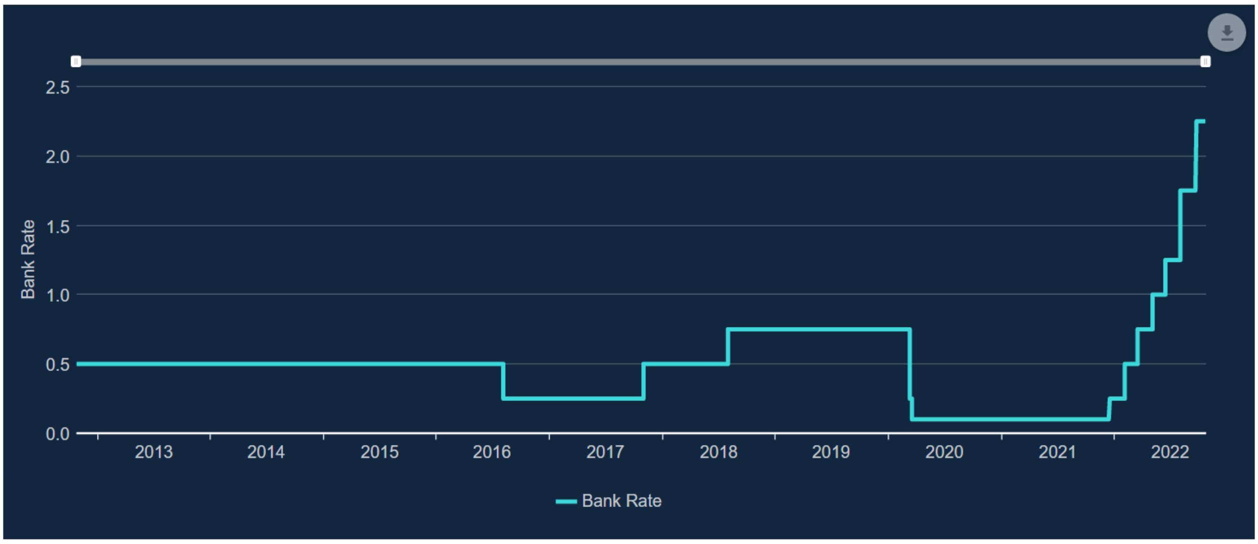
To illustrate the impact on the Council's supply chain for construction contracts the graph below shows the movement in prices over the last 12 months:

Source: Construction Output Price Indices (OPIs)

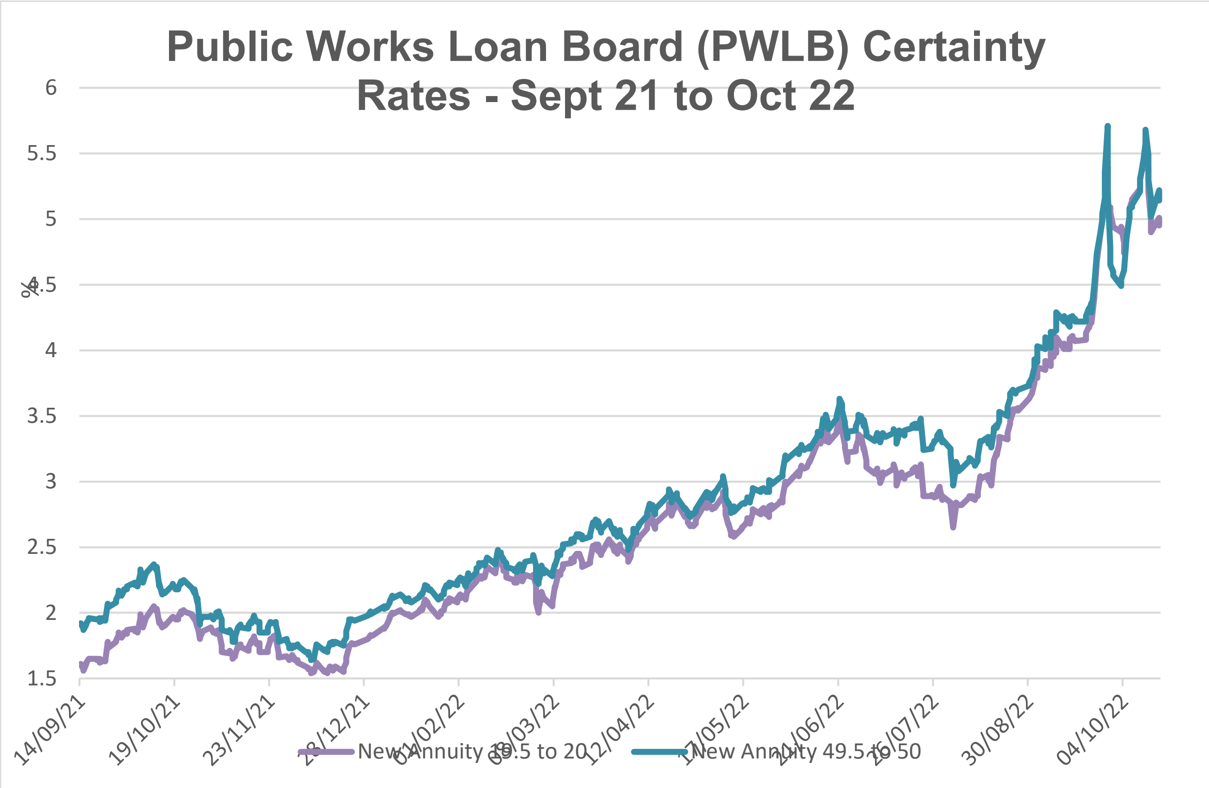
The graph above shows the biggest impact has been for new work with increases of around 10%.

Increases to the bank of England base interest rate from 0.10% during March 2020 to 2.25% on the 22 September 2022, this has an impact on public works loan board (PWLB) interest rate for borrowing required to fund the Council's capital programme.

Official Bank of England Interest rate



The graph below shows the latest PWLB interest rates trend:



For new Capital borrowing scheme affordability is being calculated with a 5% cost of capital rate which is a move away from the 3.5% previously used. To mitigate the risk of scheme affordability a review of the capital programme is being carried out to ensure that where schemes require borrowing to fund, the Council is following the approach set out in section 12 of this report.

<u>Economic impact on the Councils income budgets</u>

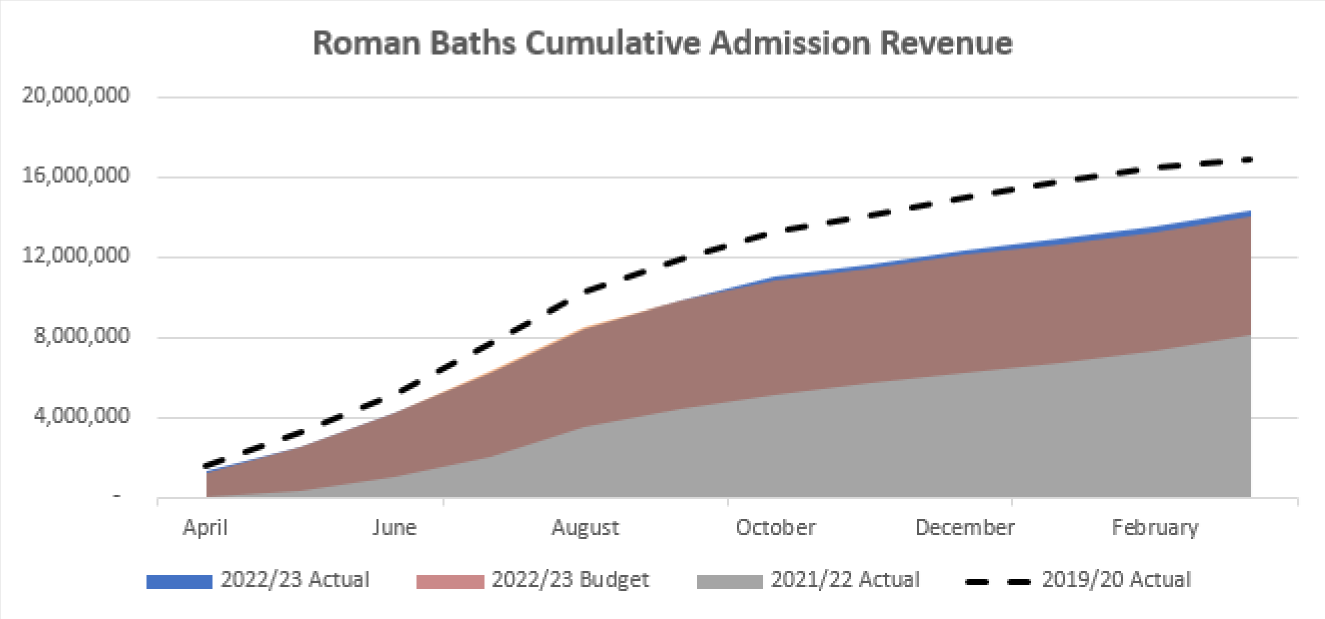
Current performance for the Council's main income generating services are below:

Heritage Services Income

Heritage Services income budgets are largely driven by visitor numbers to the Roman Baths. The budget for 2022/23 was set at 60% of the pre-pandemic footfall, this reflected the recovery seen in 2021, but also the challenges around international travel and the predicted recovery rates for international tourists (which made up 40% of the pre-COVID footfall).

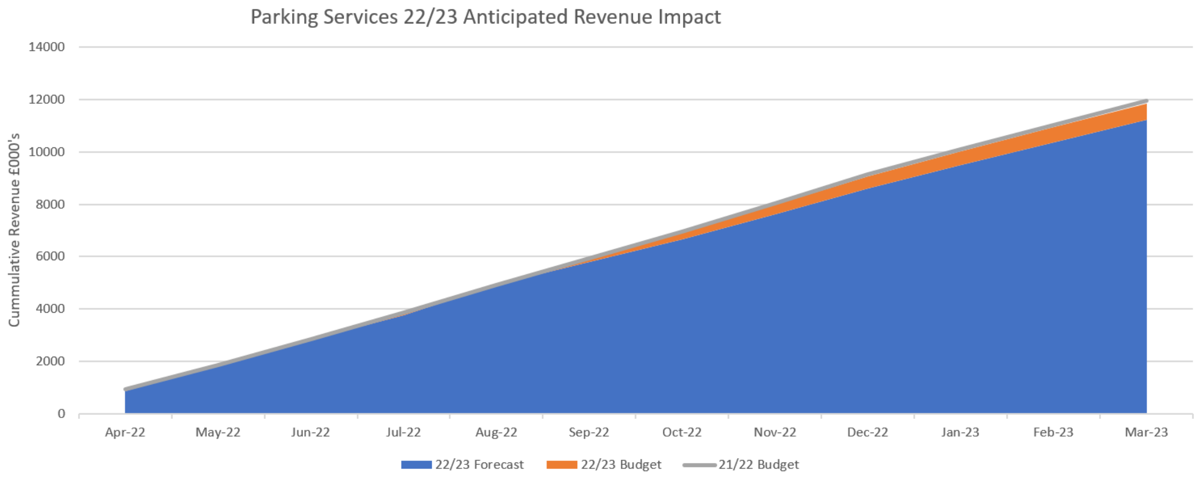
Roman Baths visitors were on budget through the spring and summer of the current financial year, during the autumn the rate of recovery has accelerated with visitors at 65% of 2019 figures in September. Through it's approach to pricing Heritage Service will deliver 84% of the 2019/20 admission income, despite the significantly reduced footfall. On site spend in catering and retail has also been strong, exceeding targets and there has been continued strong demand for weddings across the venues operated by the Service.

The strong income performance has mitigated the inflation pressures on the expenditure budgets and, at Q2, the Service is forecasting an overachievement of £655k at the end of the financial year.



Parking Services Income

Prior to the pandemic, the Parking Services income budget was c£12m. The 2022/23 income budget was rebased to c£11.8m to account for the recovery post covid, but also building in the 22/23 savings of £660k. The service is currently projecting an overall year end £55k favourable position due to a strong performance of off street parking locations, with income now tracking at broadly the same level as pre pandemic averages, and a positive performance during the first two quarters of 2022/23. We are now seeing the partial shutdown of Avon Street having an impact on the income, but this is in part mitigated by the spaces at the temporary Green Park Road. However, we are forecasting further increases in Quarter 3 due to the implementation of the new pricing structure. PCN income is reduced due to recruitment issues mirroring the national and corporate position in operational roles, but the loss of income is offset by a cost saving due to vacancies. Income from Moving Traffic Enforcement PCNs has been delayed due to technical challenges delivering the warning notice functionality required by ministers and supply chain shortages with on street infrastructure.



<u>Demand Led Services - Social Care</u>

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 2022/23 settlement will continue throughout the MTFS period, this is made up as follows:

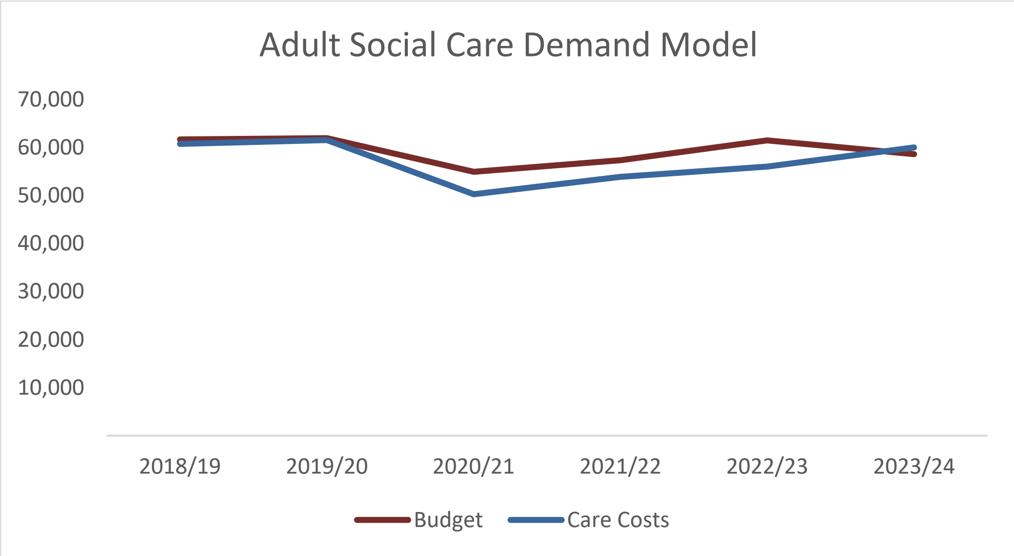
Grant	B&NES Allocation
Social Care support grant	£5.99m
iBCF Grant	£4.9m

The iBCF grant is part of the pooled budget with the B&NES Integrated Care Alliance (ICA) and ring-fenced to exclusively fund Adult Social Care.

Adult Social Care services (ASC) have been greatly challenged by the Covid-19 pandemic but it has also underlined the essential value of social care in supporting people to live the life they want to lead. During the pandemic, placement's 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. The challenges facing ASC nationally as well as locally continue and include factors such as returning/increasing demand, both in activity and complexity, capacity to deliver required care, Inflationary pressures and market stability issues in the independent sector. These challenges are impacting all ASC users and carers and include all support reasons.

The MTFS allocates £12m 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 is increasing back to pre-pandemic levels and complexity of need and provider cost has increased.

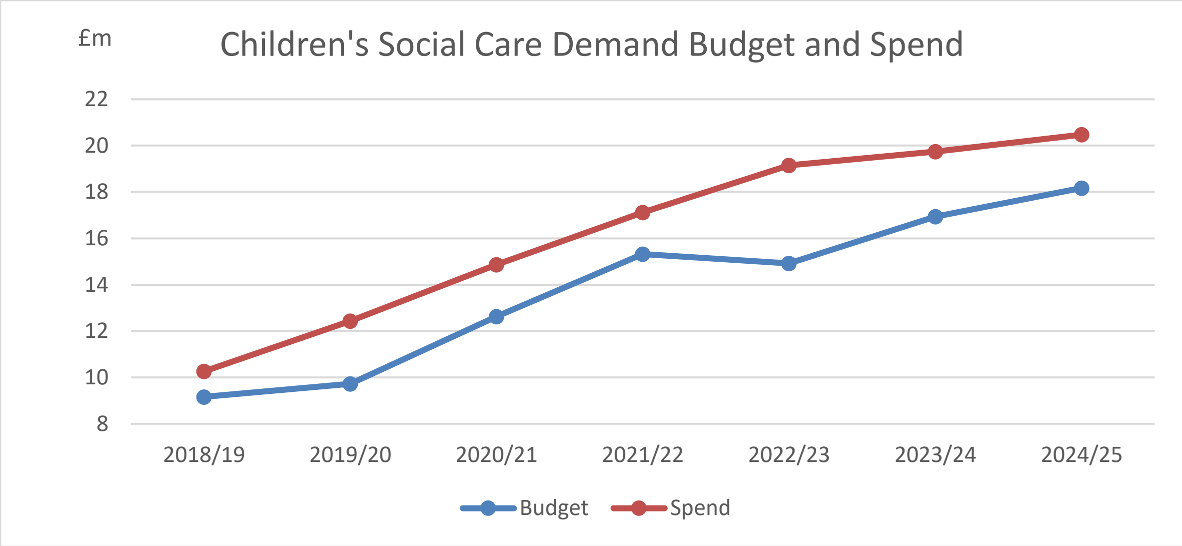
The following graph shows the impact of demographic and inflationary growth in ASC on the budget and outturn position since 2018/19:



The graph reflects the impact of the Covid-19 pandemic 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 impact of the pandemic continues to become clearer on already vulnerable people and the Government's Social Care Reforms are introduced.

Children's Social Care

As demonstrated from the graph below Children's Services expenditure has not been manageable within the budget envelope. Rebasing exercises were completed for the 2020/21 and 2021/22 budgets, which added a total of £4.8m 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. The number of children looked after (LAC) by the Council has risen from 171 to 224 an increase of 31% in the last 15 months. The MTFS allocates £10.56m 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 2021/22 outturn resulted in a DSG cumulative overspend of £13.44m. During 2021/22 the spend on pupils with a Statement or EHCP increased by 8% when budget allocations from the DFE through the High Needs Block allocation increased by 3.6%. During the first part of 2022/23 the incidence of cases and costs has continued to rise, and predictions are showing that the overspend could increase by £5.7m These increases will have to be met from the Dedicated School Grant of future years. A recovery plan has been submitted to the DFE and is currently being reviewed. The overspend is recorded as a specific reserve in the Local Authority (LA) accounts.

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.

7. Outlook for Government Grant Funding

Revenue Support Grant (RSG)

It is anticipated that there will be further delays in the planned Fairer Funding Review and that the Council will continue to receive the Revenue Support Grant (RSG) in 2023/24 of £0.5m based on the last spending review projections of a cash flat settlement for local government for 2023/24 and 2024/25. The remaining RSG allocated to B&NES has been rolled into the 100% Business Rate Pilot.

Lower Tier Services Grant & 2022/23 Services Grant

The Council received £1.8m from these two grants in 2022/23. The MTFS assumes that the Council will receive the same level of funding in 2023/24 in line with the current predictions of a cash flat rollover settlement. There is a potential risk to these funding levels if the government decides to distribute the funding in a different way or reduces the level of funding for 2023/24. The funding position will be confirmed in the December Provisional settlement.

New Homes Bonus

The Local Government Finance Settlement for 2022/23 confirmed continuation of the changes made to the funding arrangements for New Homes Bonus in 2020/21 and 2021/22, pending consultation on a replacement scheme. This resulted in a payment of £0.645m for new housing growth over the previous year, taking the total New Homes Bonus Grant to £2.037m for 2022/23, a reduction of £1.027m from 2021/22. The settlement announced that the grant element for 2022/23 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 reflecting the potential ending of the scheme in 2023/24.

	Total New Homes Bonus Grant		
Payment relating to:	**2021/22 £'m**	**2022/23 £'m**	**2023/24 £'m**
2022/23		0.645	
2021/22	0.759		
2020/21			
2019/20	1.392	1.392	
2018/19	0.913		
Total	**3.064**	**2.037**	**0.000**

The MTFS 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 2023/24 onwards.

Retained Local Business Rates – 100% Business Rate Retention Pilot

The 2022/23 Local Government Finance Settlement confirmed that the West of England 100% Business Rate Retention Pilot would continue into 2022/23. The estimated benefit is approximately £3.2m in 2022/23. No further announcements have been made yet by government on whether further extensions will be made past 2022/23. The plan currently reflects the risk that this benefit will be removed as part of the 2023/24 financial settlement with the Council reverting to the national Business Rate Retention Scheme pending the Local Government Financing and Fairer Funding review by the government.

The 2022/23 Budget included assumptions for likely levels of future Business Rate income, together with making specific provisions for appeals, increases in reliefs and growth and deletions. Business Rate bills are normally uplifted each year based on the September CPI figures, which for 2023/24 would represent a 10.1% increase. If the government decides to protect businesses from this level of increase through capping charges it would normally fully compensate Council's for the impact on retained business rate income. The 2023/24 Business Rate income forecasts currently allows for an inflationary increase of 7% whilst confirmation of the government's decision on charge increases and funding for next year is awaited. 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 three year 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 2021/22 outturn and the 2022/23 in year performance of the Collection Fund as part of finalising the Business Rate income forecasts for the 2023/24 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. 1.57% in the total allocations. Individual schools are protected under the National Funding Formula (NFF) to a 0.5% 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 has submitted an initial deficit recovery plan to the DfE to recover the deficit that exists at the end of 2021/22. The plan sets out our spending patterns and recovery of the deficit (with DFE support) by 2026/27. The DFE are currently conducting their due diligence on our plan with a decision on the support before April 2023.

The deficit recovery plan shows our proposals to review our processes to encourage schools to develop early support for pupils with SEND thus limiting the need for EHCPs. We are also creating more localised provision to limit expenditure on expensive non maintained special school places The Education Capital Programme has been utilised to direct resources to provide additional SEND places in mainstream schools and extend special school provision.

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 2022/23.

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 2023/24. This continues the transfers that have occurred in prior years, and would amount to approx. £635k.

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. The 2022/23 settlement confirmed a further £1.73m Social Care grant funding which was combined with the continuation of the existing Social Care Support grant to give a revised total of £5.99m. This funding is assumed as recurrent in the base budget.

Better Care Fund

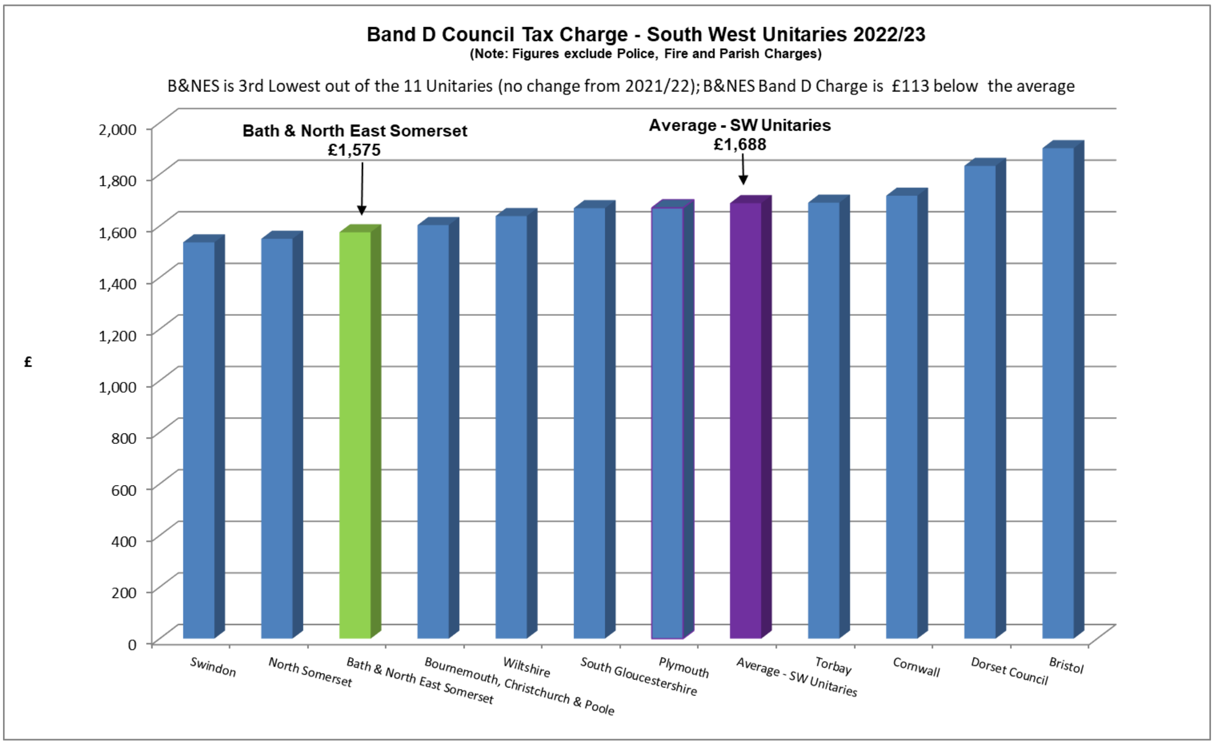
The Better Care Fund is intended to incentivize the integration of health and social care, requiring Integrated Care Boards (ICBs) and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, by reducing avoidable hospital admissions and facilitating early discharge from hospital. The Better Care Fund (BCF) is one of the government's national vehicles for driving health and social care integration and, whilst there was limited change to the 2022/23 Better Care Fund policy framework, the future direction of the BCF beyond 2023 will be consulted on to take into account the upcoming reforms.

The Council and ICB's Better Care Fund has a minimum funding contribution of £14.1m in 2022/23 a 5.66% uplift on 2021/22. 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 ICB

8. Council Tax

Comparison of 2022/23 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 2023/24 has been updated to include the improved 2021/22 actual Council Tax collection fund outturn position of £0.26m providing a net deficit to be funded of £0.29m. This forecast will be reviewed and updated to take account of the 2022/23 in year performance of the Collection Fund as part of finalising the Council Tax base and income forecasts for the 2023/24 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 1.75% for 2023/24 and 1% per annum from 2024/25 onwards.

Adult Social Care Precept

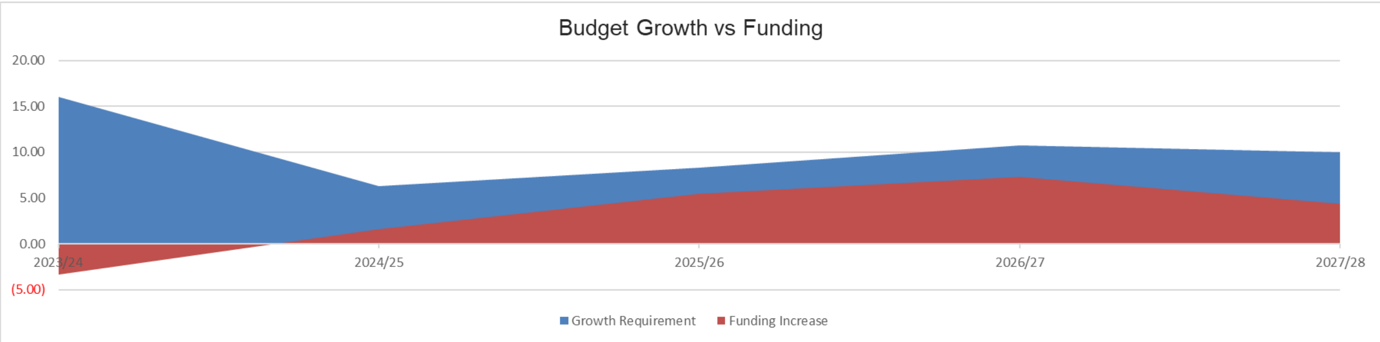
The Government, in recognising the continued pressures facing Adult Social Care (ASC) authorities, has allowed for a further 1% increase per annum through the three year spending review period from 2022/23 to 2024/25. The Medium-Term Financial Plan assumes that this applies annually to 2024/25.

9. Financial Outlook

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

Budget Planning	Future years assumptions £m					
	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Growth Requirement	16.06	6.28	8.32	10.73	9.99	51.38
Funding Increase	(3.37)	1.62	5.45	7.27	4.40	15.38
Annual Funding gap	**19.43**	**4.66**	**2.86**	**3.46**	**5.60**	**36.00**
Savings Proposals	**2.32**	**0.23**	**0.00**	**0.00**	**0.00**	2.55
Remaining Funding Gap	**17.11**	**4.43**	**2.86**	**3.46**	**5.60**	**33.45**

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				
	2023/24	2024/25	2025/26	2026/27	2027/28
Budget Requirement (Previous Year)	**126.74**	**131.88**	**133.51**	**138.96**	**146.24**
Budget Adjustments	0.00	0.00	0.00	0.00	0.00
Pay & Pension	5.90	1.68	2.53	2.30	2.33
Demographic Growth	1.72	1.72	1.72	2.72	2.72
Contract Inflation	3.65	2.22	2.28	2.31	2.36
New Homes Bonus Pressure	0.61	0.00	0.00	0.00	0.00
Capital Financing	0.87	2.14	1.08	1.02	1.00
Settlement grant funding	0.00	0.00	0.00	0.00	0.00
Budget pressure / rebasing	3.30	(1.48)	0.71	2.38	1.58
Funding Requirement Sub Total	**16.06**	**6.28**	**8.32**	**10.73**	**9.99**
Draft Budget Before Savings	**142.80**	**138.17**	**141.82**	**149.70**	**156.23**
Proposed Savings Plans	(2.32)	(0.23)	0.00	0.00	0.00
Estimated Savings Required	(17.11)	(4.43)	(2.86)	(3.46)	(5.60)
Savings Requirement Sub Total	**(19.43)**	**(4.66)**	**(2.86)**	**(3.46)**	**(5.60)**
Budget Requirement	**123.38**	**133.51**	**138.96**	**146.24**	**150.63**
Business Rate Relief Adjustment*	8.51	0.00	0.00	0.00	0.00
Revised Budget Requirement	**131.88**	**133.51**	**138.96**	**146.24**	**150.63**
Funding of Budget Requirement					
Council Tax	111.73	116.52	120.02	123.63	127.36
Business rates retention*	19.73	21.29	21.94	22.60	23.28
Business rates relief deficit (21/22) - s31 grant funded	0.00	0.00	0.00	0.00	0.00
Reserve transfer from Business Rates s31 grant reserve	0.00	0.00	0.00	0.00	0.00
Reserve transfers From	0.43	0.00	0.00	0.00	0.00
Reserve transfers (To)	0.00	(4.30)	(3.00)	0.00	0.00
Funding of Budget Requirement Total	**131.88**	**133.51**	**138.96**	**146.24**	**150.63**

The forecast includes the following cost pressures and assumptions:

- **Pay Inflation** – Estimated 3.00% per annum until 2025/26, 2% thereafter.
- **Council tax** – General assumed at 1.99%, Social Care precept 1% until 2024/25.
- **Pension Costs** – Have been revised in line with the recent revaluation no increase during financial planning period.
- **Demographic Growth & Increase in Service Volumes** – Additional demand from new placement and market pressures in Adult & Children Social Care;
- **Interest Rates** - Higher interest rate to follow movement in Bank of England base rate currently 2.25% for treasury management cash investments. The Council will fix budget interest rates following the provisional settlement;
- **Inflation** – CPI projections modelled on a higher rate between 5-10% this will be refreshed for the detailed budget proposal based on ONS data.
- **Budget Pressures / Rebasing** – 2023/24 budget rebasing takes into account current pressures on demand driven services including Children's Services and Waste.

- **Capital Spending** – an allowance has been made to fund previously agreed provisional schemes requiring borrowing.
- **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 2023 will be developed with the administration as part of the Corporate Strategy and have not yet been factored into the plan.
- **Reserves** – In recognition of inflation pressures commitment against un-earmarked general reserve for unbudgeted in year risks.

10. Managing the Medium Term Financial Strategy

Current estimates are that £36m 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 £24.09m, including the pre-approved savings of £2.55m. Due to the budget impact of rising demand and inflation this puts 67% of the 5 year MTFS savings in 2023/24 and 2024/25 with £19.43m to find next year.

This gives a challenging target next year which is 14.7% of the estimated net budget of £131.88m. 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

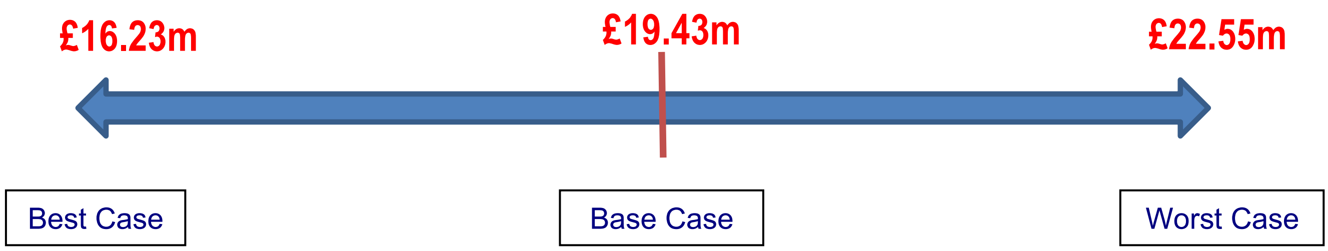
Change – Long term

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 2023/24 Budget proposal.

The savings scale below show's how the MTFS base case presented in this report may change following the provisional settlement from government that will give clarity on the Council tax threshold, government grant levels and business rates retention.



The best case incorporates the extension of the business rates retention pilot that will benefit the 2023/24 budget by £3.2m

The worst case builds in a 10% reduction in government grants directly awarded through the local government settlement and pay inflation at 5%.

For financial planning purposes the base case is the most realistic assessment that recognises that numbers may move between now and the end of December. In the event that the local government funding position moves to the worst case the Council will need to consider further mitigations from the revenue budget.

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.

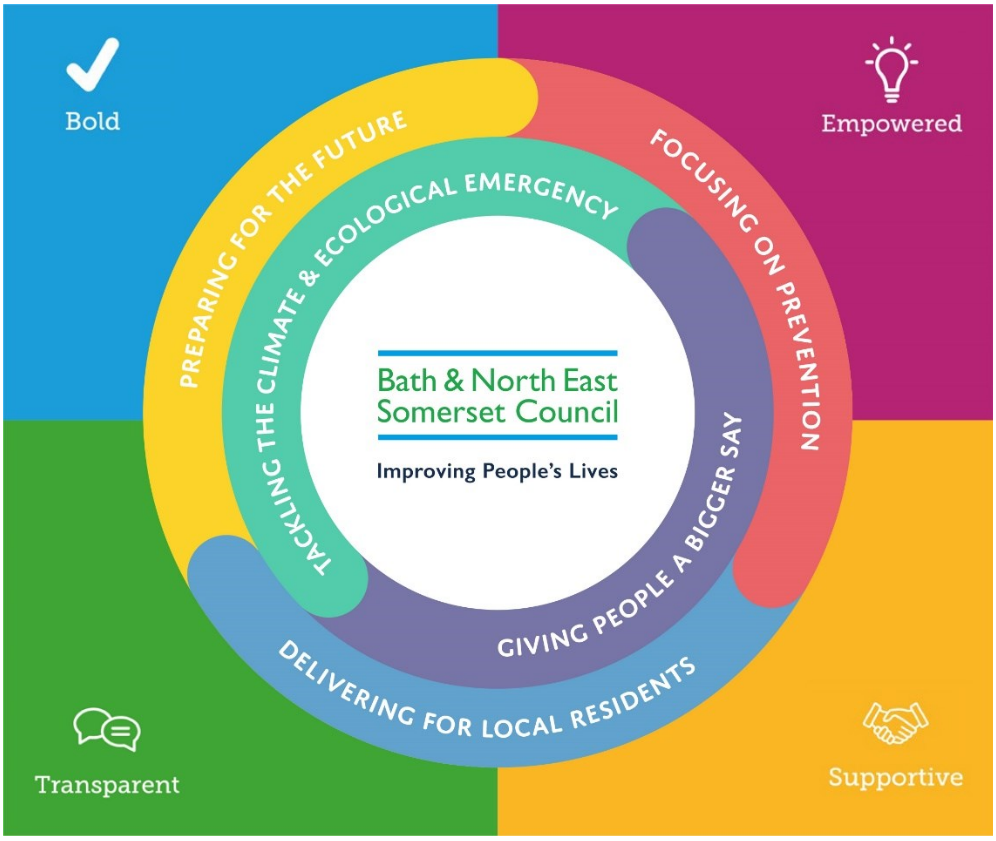
ONE: We have **one** overriding purpose – to improve people's lives.

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 and the cost of living crises 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 2021. 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. The new code includes a clear statement that a local authority must not borrow to invest primarily for financial return.

The code 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, reduce, pause or stop 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 or 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 2022 as part of budget setting:

Capital Schemes for Approval

Cabinet Portfolio: Capital Schemes	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Budget 2026/2027 £'m	Total £'m
Economic Development & Resources	38.824	15.886	13.480	1.593	0.000	**69.784**
Climate & Sustainable Travel	1.006	0.000	0.000	0.000	0.000	**1.006**
Adults & Council House Building	14.089	1.442	1.442	1.442	1.442	**19.857**
Children and Young People, Communities and Culture	1.886	0.000	0.000	0.000	0.000	**1.886**
Neighbourhood Services	35.418	10.374	0.800	0.000	0.000	**46.592**
Transport Services	2.014	0.000	0.000	0.000	0.000	**2.014**
Corporate Capital Contingency	2.828	0.000	0.000	0.000	0.000	**2.828**
Total	**96.064**	**27.702**	**15.722**	**3.035**	**1.442**	**143.966**

Capital Schemes for Provisional Approval (Subject to)

Cabinet Portfolio: Capital Schemes	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Budget 2026/2027 £'m	Total £'m
Economic Development & Resources	49.339	12.755	12.268	4.440	4.400	**83.202**
Climate & Sustainable Travel	7.603	0.530	0.000	0.000	0.000	**8.133**
Adults & Council House Building	6.692	0.435	0.000	0.000	0.000	**7.127**
Children and Young People, Communities and Culture	21.817	0.000	0.000	0.000	0.000	**21.817**
Neighbourhood Services	9.028	12.417	24.661	9.463	9.497	**65.065**
Transport Services	5.535	1.163	1.163	1.293	1.163	**10.317**
Total	**100.013**	**27.300**	**38.092**	**15.196**	**15.060**	**195.661**
Grand Total	**196.077**	**55.003**	**53.814**	**18.231**	**16.502**	**339.627**

The current capital programme that was approved in February 2022 was funded as follows:

Financing	Budget 2022/2023 £'m	Budget 2023/2024 £'m	Budget 2024/2025 £'m	Budget 2025/2026 £'m	Budget 2026/2027 £'m	Total £'m
Grant	53.405	16.973	17.151	8.595	8.439	**104.563**
Capital Receipts/RTB	7.013	5.500	0.000	0.000	0.000	**12.513**
Revenue	0.632	0.000	0.000	0.000	0.000	**0.632**
Borrowing	126.224	31.713	36.663	9.636	8.063	**212.299**
3rd Party (inc S106 & CIL)	8.803	0.816	0.000	0.000	0.000	**9.619**
Total	**196.077**	**55.003**	**53.814**	**18.231**	**16.502**	**339.627**

Note this does not include slippage from 2021/22 which totalled £37.6m.

An allocation of £1.1m revenue budget to support new schemes has been factored into 2023/24, this is fully committed to the schemes and maintenance programmes added in the 2022/23 and previous years budgets. Any further capital investment requiring funding from corporately supported borrowing will require either the reduction of existing schemes or for the additional costs of borrowing to be incorporated in the 2023/24 and future years revenue budgets. The more detailed capital strategy will be updated for approval as part of the budget in February 2023.

Capital receipts will be used flexibly on appropriate revenue expenditure and further adjustments may be made as part of setting the budget for 2023/24 subject to any revision to 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. 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 2022/23 capital programme included a funded corporate risk contingency of £5m, of which £4.5m remains following allocations made during this financial year;

- 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 2022/23 the MTFS proposes that the Council makes an assessment of inflationary risk that is in addition to the amount built into the revenue budget proposal and holds a commitment against unearmarked reserves in recognition of this risk.

The following table shows each of the key reserves held for financial planning, the expected opening balance for 2023/24 and anticipated closing balance after the projected use:

	Estimated Balance 31/03/2023 £'m	Projected Use in Year £'m	Current Estimated Balance 31/3/24 £'m
Revenue Budget Contingency	3.20	0.00	3.20
Financial Planning and Smoothing Reserve	2.18	0.00	2.18
Restructuring & Severance Reserve	1.90	1.00	0.90

Following on from the Council's planned use of reserves for 2021/22 & 2022/23, balances will be replenished to pre Covid levels for the Revenue Budget Contingency and Financial Planning and Smoothing reserve by 2025/26.

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.

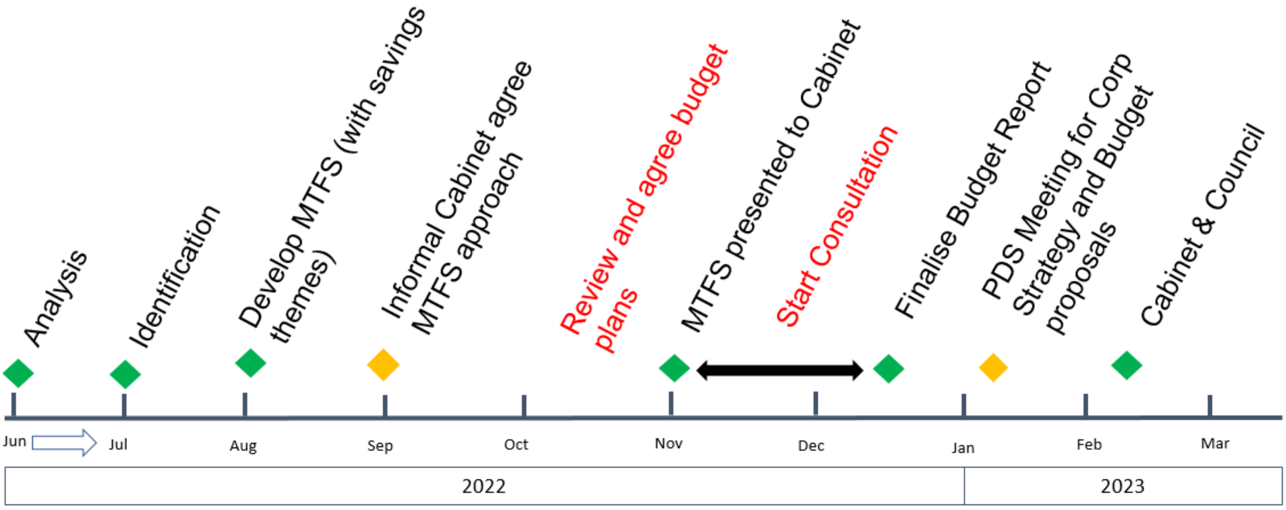
13. Public/Stakeholder Engagement

We will be making more information available on our MTFS for stakeholder engagement in November 2022, 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
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 following the Covid pandemic and impact on retail economy. 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 has been 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.

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.