

# **Bath & North East Somerset – Medium Term Financial Strategy 2024/25 -2028/29**

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

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

The MTFS does not detail how individual savings will be made, nor how categories of additional income will be achieved. Nevertheless, it describes the scope of the work required, and taking place, to meet these targets together with some of the anticipated impacts. Due to the current financial challenges the Council faces the MTFS sets out strategic management options based on the high-level planning assumptions in section 9.

The focus is on the next two years for financial planning purposes with the emphasis on creating a budget to allow the Council to recover from the financial impacts of Covid and to deliver services to improve people's lives. At this stage uncertainty remains for next year and beyond because the national approach to funding local government is currently under review. The MTFS assumes that despite significant cuts in previous years funding, constraints will continue and will therefore be guided by the priority areas of service delivery as set out in the Corporate Strategy.

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

The objective of this document is to set the future years financial recovery and strategic resourcing plan; alongside meeting the administration's priorities for the Council within the context that enables the delivery of a balanced budget over the next five years, but with specific focus on the next two years.

A balanced budget requires the financial plan to set out how income will equal spend over the short and medium term. Plans will take into account cost savings alongside income growth strategies as well as useable reserves.

Operating and funding the Council in a post Covid economic environment with high inflation levels continues to be challenging, the Council is impacted due to services being exposed to either people or contract inflation, alongside the additional demands on Children's and Adult Social Care. The Council has responded to this challenge over the past three years and in 2022/23 ended the financial year slightly under budget with transfers to reserves of **£0.06m**. 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 autumn budget statement on 22<sup>nd</sup> November 2023. 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 this Strategy have not made any assumptions on new Government funding that may be allocated in 2024/25. 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 2022/23 the budget had a savings requirement of £11.87m, against this target the Council delivered savings of £10.63m (90%) with the balance rephased to 2023/24 and mitigated through other budget reductions. As a result of the ongoing budget challenge the 2023/24 budget requires the delivery of £14.38m 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 £35.3m (including the £1.74m 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. Adult Social Care Precept of 2% has been added for 2024/25 in line with the current government spending review period.

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, which is compounded by traditional operating models for these services which has embedded additional costs relative to other local authorities.

In the shorter term the profile of the savings shows a requirement of £23.19m over the next two years (£17.31m in 2024/25 of which there are planned savings of £0.69m, followed by £5.88m in 2025/26). 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.

To manage financial risk the Council holds £12.58m of unearmarked reserves, if unutilised in 2023/24 the MTFs proposes that the Council makes an assessment of ongoing 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 2023/24 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 2024/25 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**

##### 2022/23 Outturn

The Council delivered a favourable outturn position of £0.06m as follows:

Portfolio	Revised Budget £m	Outturn £m	Variance Over / (Under) £m
Leader of Council	(4.12)	(4.74)	(0.62)
Resources	7.51	3.18	(4.32)
Economic Development, Regeneration and Growth	0.80	0.86	0.06
Climate and Sustainable Travel	1.36	1.12	(0.24)
Adult Services and Council House Building	65.01	65.35	0.34
Children and Young People, and Communities	37.45	42.90	5.44
Neighbourhood Services	26.87	27.58	0.71
Transport	(5.10)	(6.95)	(1.84)
Planning and Licensing	2.38	2.63	0.25
<b>Total (before Carry Forwards)</b>	<b>132.15</b>	<b>131.93</b>	<b>(0.22)</b>
Carry Forward Requests (underspends)			0.16
<b>Total (including Carry Forwards)</b>			<b>(0.06)</b>

The £0.06m underspend was transferred to the Revenue Budget Contingency Reserve, which is used to fund unbudgeted revenue pressures which are unable to be mitigated by management and recovery actions.

#### Budget 2023/24

The 2023/24 net budget of £131.026m was approved by Council in February 2023. Quarter 2 budget monitoring to the end of September, shows a projected overspend of £6.50m against the revised budget of £135.06m 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 2023.

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader of Council	(0.34)	(0.33)	0.01
Climate Emergency and Sustainable Travel	1.33	1.19	(0.14)
Council Priorities and Delivery	9.08	9.11	0.03
Resources	10.13	10.69	0.56
Economic And Cultural Sustainable Development	(1.98)	(3.58)	(1.60)
Adult Services	59.65	62.85	3.20
Children's Services	31.80	36.38	4.58
Highways	(1.31)	(2.57)	(1.26)
Neighbourhood Services	24.23	24.94	0.72
Built Environment and Sustainable Development	2.46	2.88	0.41
<b>Quarter 2 Forecast Outturn Variance</b>	<b>135.06</b>	<b>141.56</b>	<b>6.50</b>

The main overspend is in Children's Services where demand-led placement and package costs continue to cause a significant pressure. Combined with pressures on Home to School Transport arising from market pressures, including reduced availability of drivers, cost inflation and reduced tendering activity for many routes, the service is currently forecasting a £4.58m over budget position.

The current Employer's national pay offer for 2023/24 is estimated at 7%, which is significantly higher than the 4% increase included in the budget. Consequently, all corporate contingency budgets have been earmarked to fund the gap which is currently estimated at £2.4m. Service budgets will be adjusted once the final pay award is agreed.

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

To mitigate the £6.5m pressure the Council is urgently exploring what in year mitigations are available to prevent further use of reserves. Vacancy management, corporate spend controls, and stopping or pausing discretionary spend are all mitigations that will be implemented with immediate effect. Mitigations will be 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 unearmarked reserves will need to be utilised, subject to approval. Should this be required there would be a requirement to replenish these reserves in future years, putting further pressure on meeting the medium-term budget gaps.

### Analysis of Current Position

Local Government has built its budget plans based on reductions in revenue support grant funding that have occurred over the past decade.

The Council's revenue support grant has reduced from £31m in 2013/14 to £0.8m per annum in 2023/24, as a result we have become more reliant on external income to help fund core Council services.

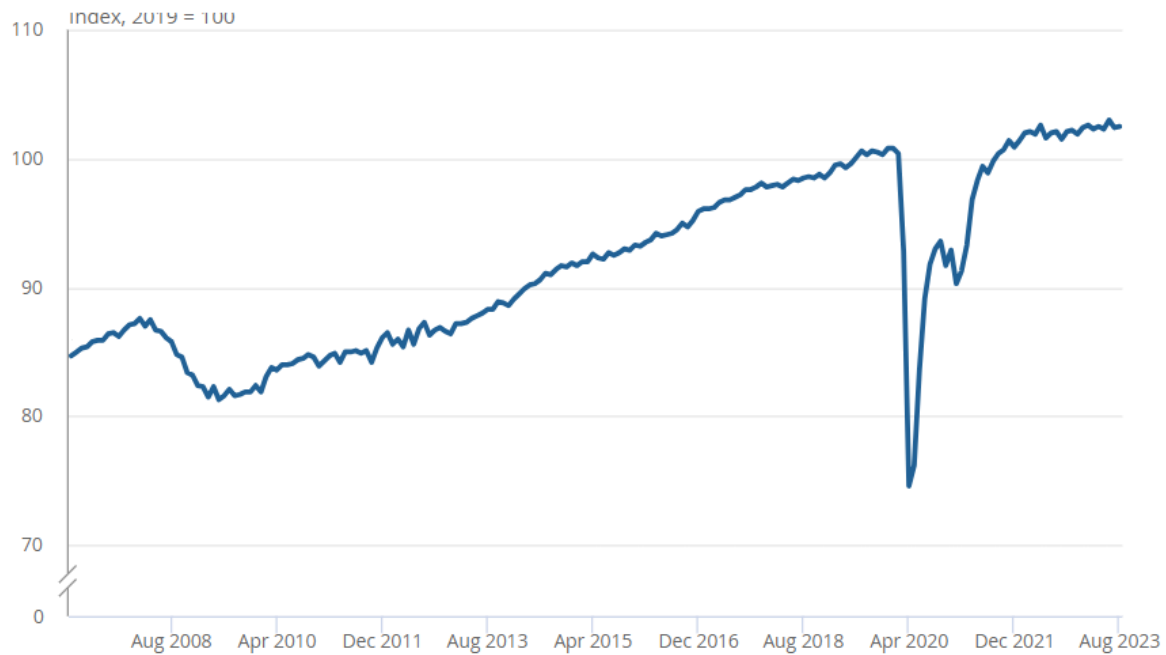
## **6. Drivers of Demand**

### The Economic outlook

The post pandemic UK economy made a good recovery leading to an increase in activity, this created a 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.

The diagram below shows that monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in August 2023, following a fall of 0.6% in July 2023

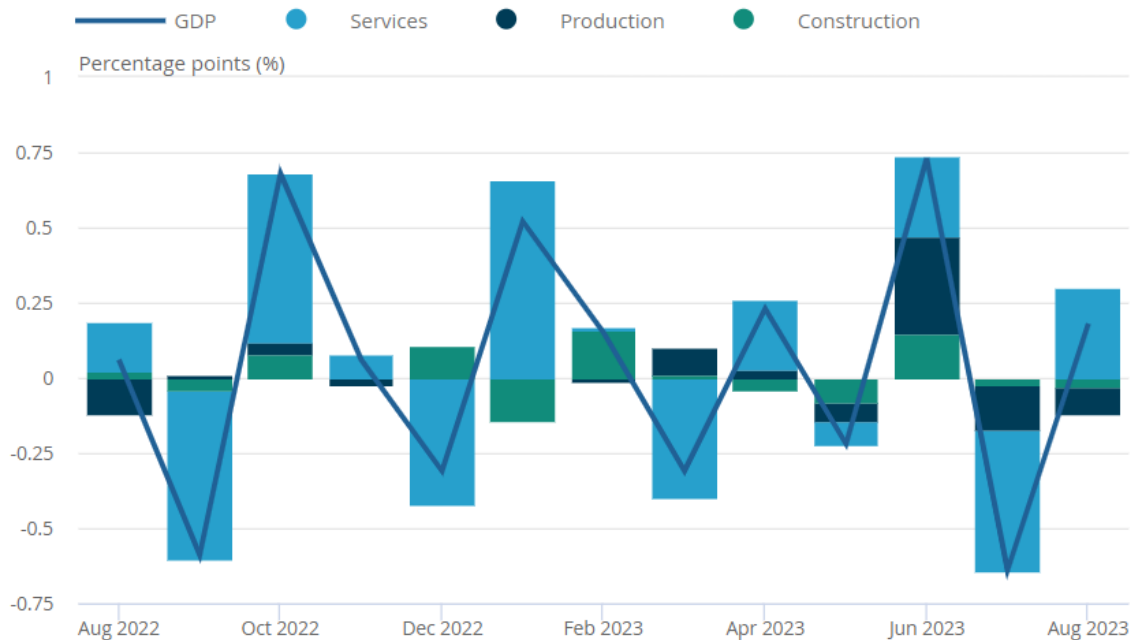
## Monthly index, January 2007 to August 2023, UK



Source: Office for National Statistics - Monthly GDP

The chart below shows the monthly sector movement and contribution of reduction in UK GDP. This highlights that there has been the most volatility in the service industry.

## Contributions to monthly GDP growth, August 2022 to August 2023, UK



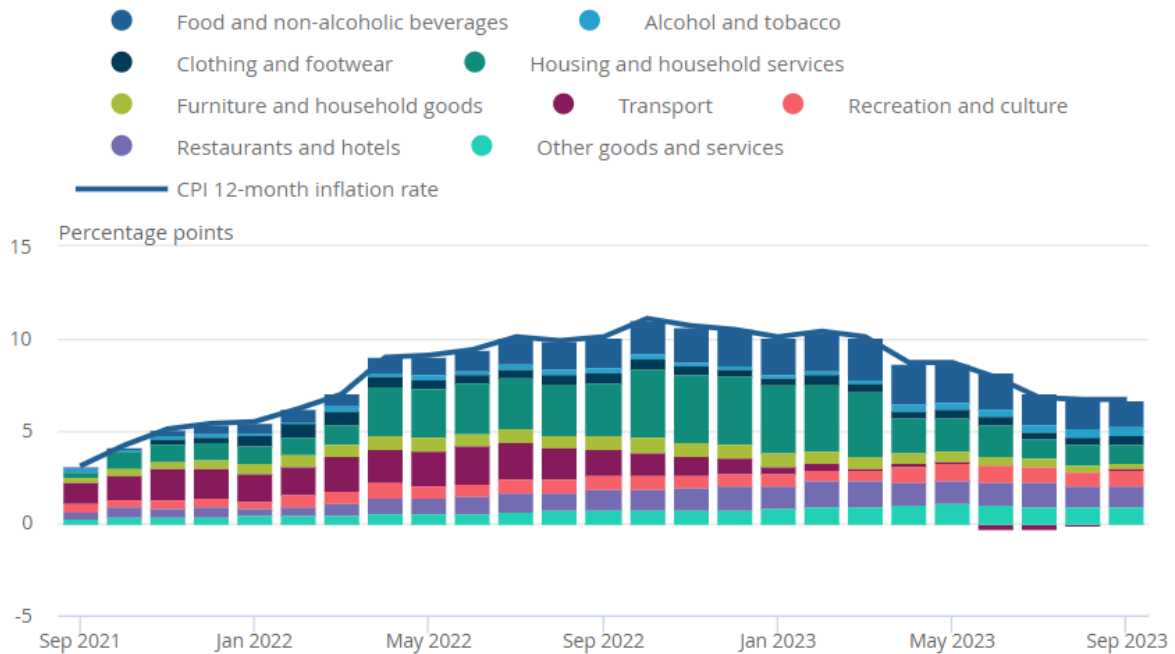
Source: GDP monthly estimate from the Office for National Statistics

The Consumer Prices Index (CPI) rose by 6.7% in the 12 months to September 2023, the same rate as in August. On a monthly basis, CPI rose by 0.5% in September 2023, the same rate as in September 2022.

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. Pay and contract inflation estimates have been refreshed to take into account the economic outlook.

The make up by sector in the movement in CPI can be found in the graph below.  
**Contributions to the annual CPI inflation rate, UK, September 2021 to**

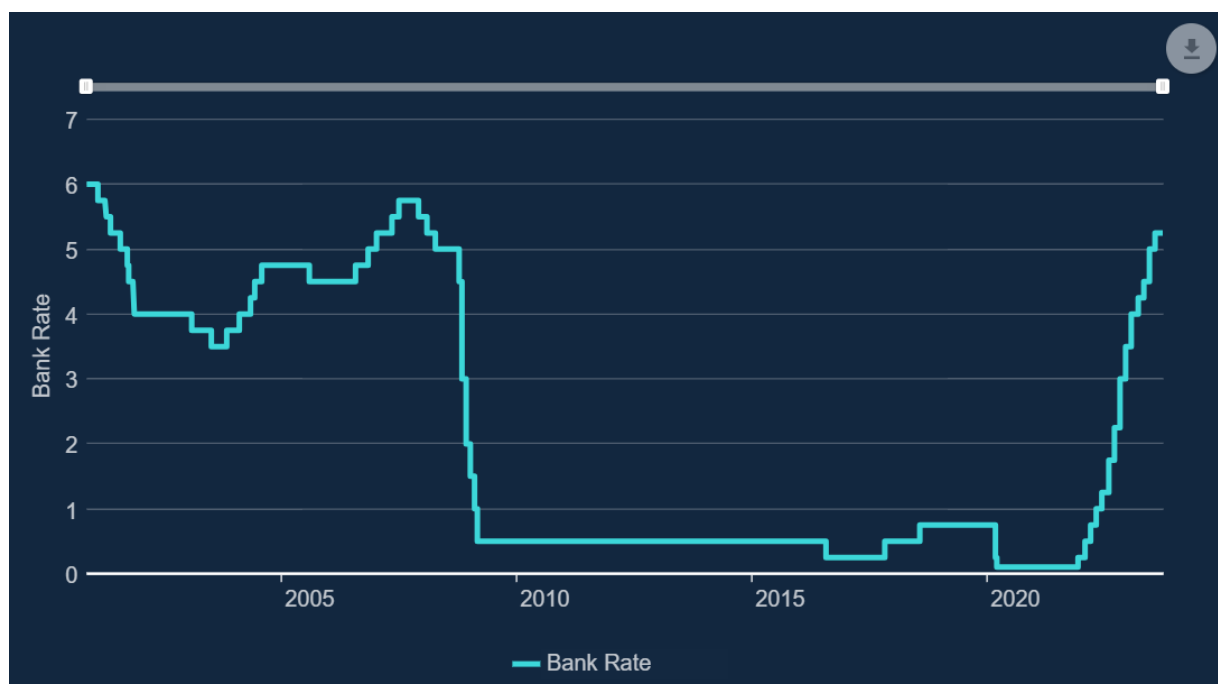
**September 2023**



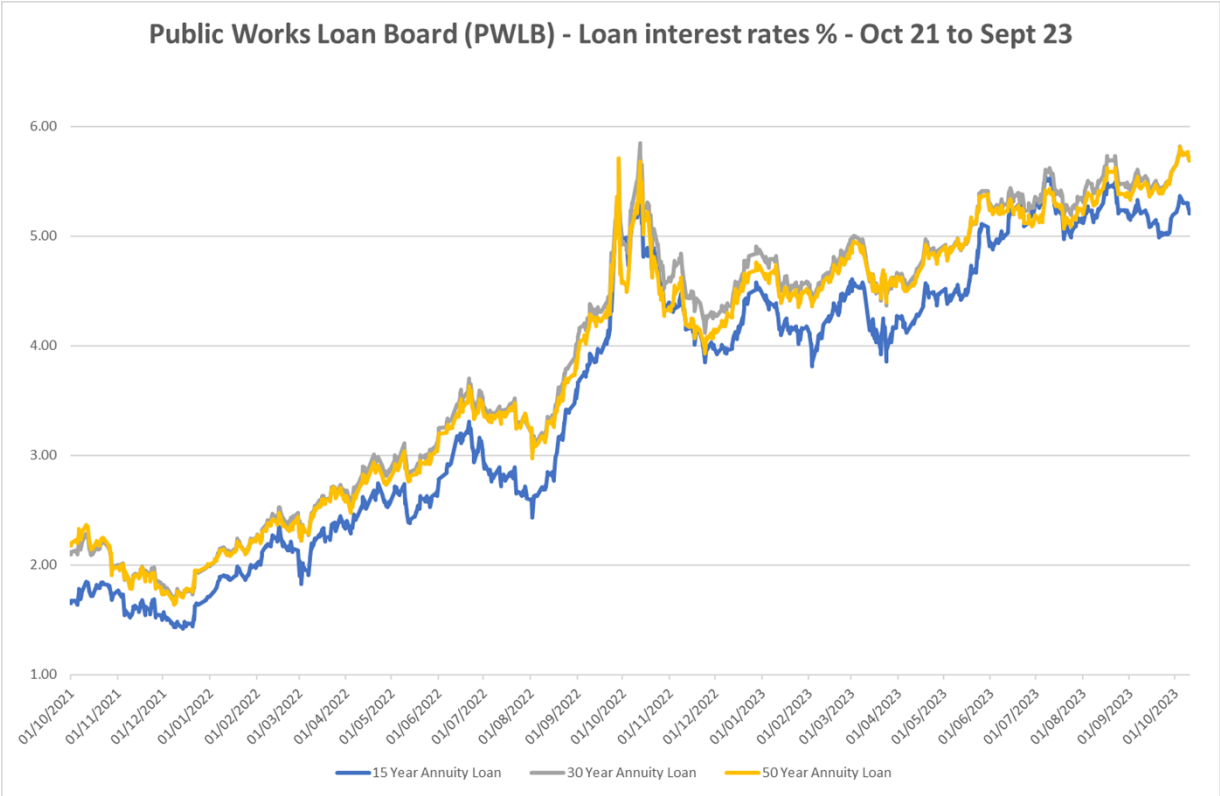
Source: Consumer price inflation from the Office for National Statistics

Increases to the bank of England base interest rate from 0.10% during March 2020 to 5.25% on the 21 September 2023, 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, although there is risk to the upside. 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.

Economic impact on the Councils income budgets

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

Heritage Services Income

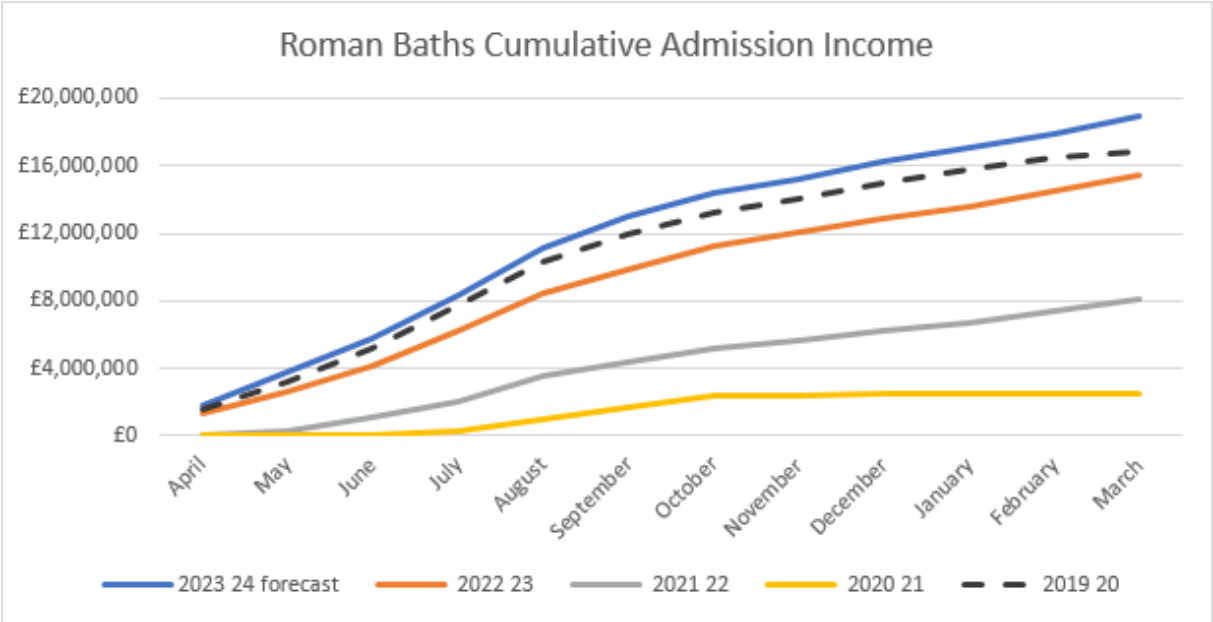
Heritage Services income budgets are largely driven by visitor numbers to the Roman Baths. The budget for 2023/24 was set at 888,000 visitors, around 75% of the pre-pandemic footfall.

This budget was set at the end of the summer 2022, and prior to, a significant acceleration in the Baths' recovery from the pandemic. During the autumn of 2022, the US inbound tourist market recovered significantly, stimulated in part by the value of the USD. Roman Baths has historically performed well during a recession, particularly when GBP is weak as inbound tourism is stimulated and domestic visitors chose to stay in the UK rather than travel abroad.



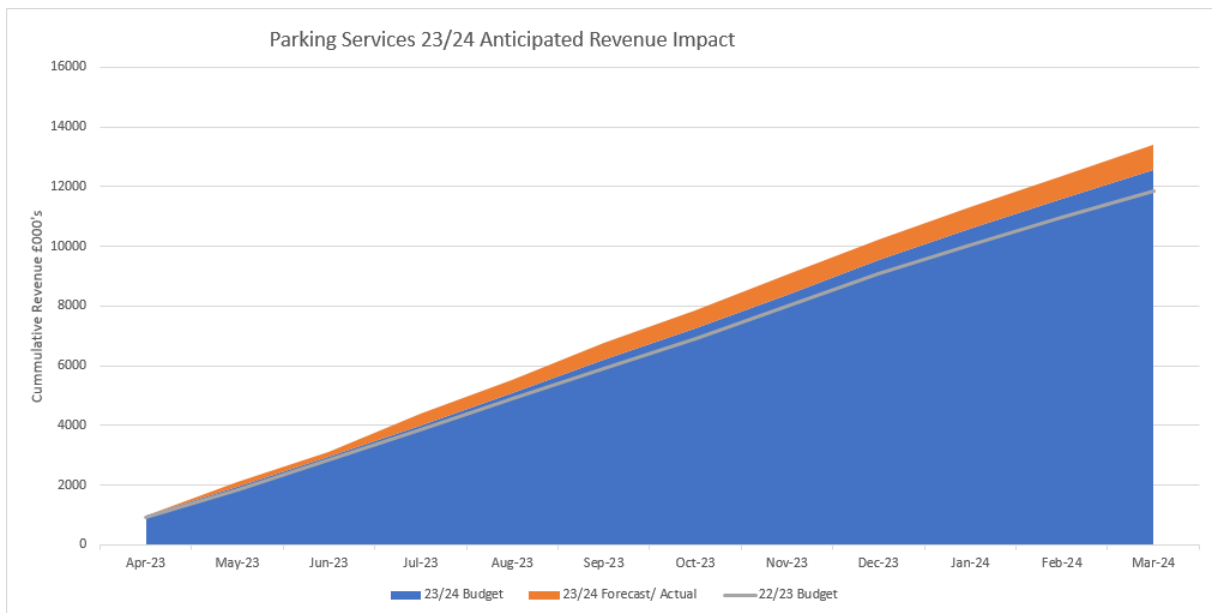
During spring / summer 2023, the Roman Baths has prospered in this environment; the torchlight evenings, Champagne bar and marketing focus on the 2000 years of history to be experienced have given visitors the opportunity to create memories. This performance has been reflected in an increased forecast to 1,000,000 visitors in the financial year.

Throughout the pandemic Heritage Services have sought to maximise the income from visitors, as mitigation against the reduced footfall. This uplifted income per visitor means that in 2023/24 the Roman Baths admission income is forecast to exceed pre-pandemic levels.



### Parking Services Income

Prior to the pandemic, the Parking Services income budget was c£12m. For 2023/24 the service income budget was increased to c£12.6m. This factored in the recovery in income post covid, but also built in revenue associated with new Residential Parking Zones (RPZs) and emissions-based charging. The service is currently projecting an overall year end £0.7m favourable position due to the strong performance of all parking locations, with income now over and above pre pandemic averages with a positive performance during the first two quarters of 2023/24. Income from Bus Lane Enforcement has been lower than budgeted because of camera outages due to third party scaffolding, while anticipated Financial Assistance Scheme Framework income is lower than anticipated due to limitations within the framework agreement itself.



## Demand Led Services - Social Care

### Adult Social Care

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

The MTFs assumes that the Social Care funding included in the 2023/24 settlement will continue throughout the MTFs period, this is made up as follows:

Grant	B&NES Allocation
Social Care support grant	£10.1m
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.

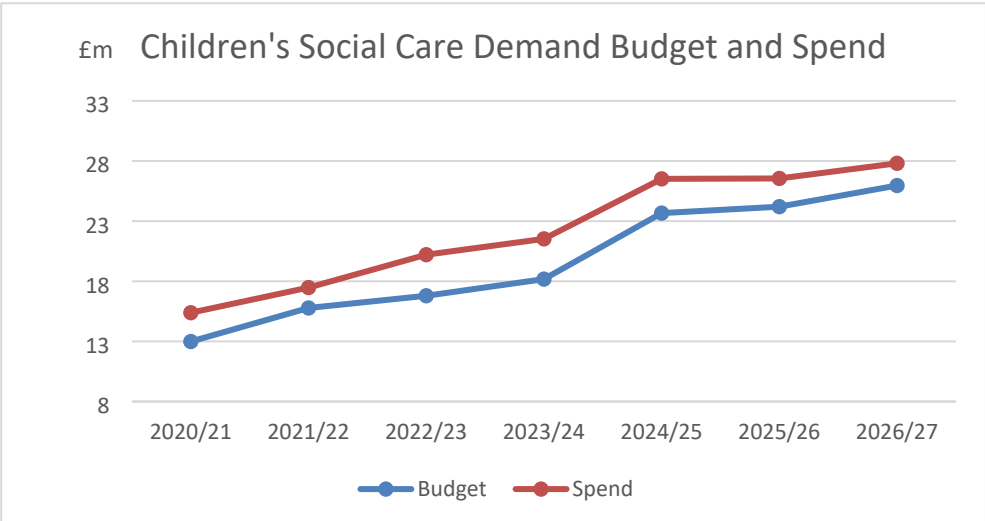
The challenges facing Adult Social Care (ASC) nationally as well as locally continue and include factors such as returning/increasing demand, both in activity and complexity, capacity to deliver required care, Inflationary pressures and market stability issues in the independent sector. These challenges are impacting all ASC users and carers and include all support reasons. Additional funding has been received in 2023/24 from the Adults Social Care Discharge Grant (£0.6m). This grant was distributed through the Better Care Fund and is expected again in 2024/25 with an anticipated further increase of £0.5m. Funding for Market Sustainability of £1.7m was also received from the Market Sustainability and Improvement Fund and this is expected again in 2024/25 with an anticipated further increase of £0.9m.

The MTFs allocates £11.2m 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 activity levels previously seen and complexity of need and provider cost has increased.

The Council’s model of practice provides effective care for service users. However, a recent LGA peer review concluded current practices are very traditional and in some cases we are overproviding care relative to need. This contributes to the growing cost and needs to be addressed over the period of this MTFS.

### 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 previously completed for the services budgets, however the service continues to see increasing cost and numbers 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 215 to 238 an increase of 11%, in the last 12 months. This number includes 33 that are classed as Unaccompanied Asylum Seeking Children (UASC). The MTFS allocates £12.95m 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 Special Educational Needs and Disability (SEND). This is adding to the pressure on the Dedicated Schools Grant (DSG) managed by the Council. The 2022/23 outturn resulted in a DSG cumulative overspend of £13.45m. The overspend of the DSG in year in 2022/23 was £7.7m. The historical deficit and in year overspends are being addressed via the Safety Valve project in conjunction with the Department for Education (DfE) over a 5 year period. In 2022/23, the first payment from the DfE of £7.68m was received and a further payment in 2023/24 of £1.65m is planned. In 2023/24, the current year forecast is an overspend of £6.8m which exceeds our planned safety valve programme position by £3m. The latest Quarterly submission to the DfE detailed this and highlighted that the plan would still come to balance but at a later date than the original plan. The overspend is recorded as a specific unusable 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.

One particular area of focus will be on how packages of care are commissioned as current practice is disjointed and not in line with best practice across local government.

There are also challenges around the quality of data which need to be addressed as this will help us to make more effective decisions for service users.

## 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 2024/25 of £0.8m based on the last spending review projections of a cash flat settlement for local government for 2024/25. The remaining RSG allocated to B&NES has been rolled into the 100% Business Rate Pilot.

### Services Grant

The Council received £0.96m from this grant in 2023/24. The MTFS assumes that the Council will receive the same level of funding in 2024/25 in line with the current predictions of a cash flat rollover settlement. There is a potential risk to this funding level if the government decides to distribute the funding in a different way or reduces the level of funding for 2024/25. The funding position will be confirmed in the December Provisional settlement.

### New Homes Bonus

The Local Government Finance Settlement for 2023/24 confirmed continuation of the changes made to the funding arrangements for New Homes Bonus over the past 3 years, pending consultation on a replacement scheme. This resulted in a payment of £0.425m for new housing growth over the previous year. The settlement announced that the grant element for 2023/24 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 that the MTFS treats the 2023/24 grant payment as one-off with no further grant anticipated reflecting the potential ending of the scheme in 2024/25.

	<b>Total New Homes Bonus Grant</b>		
<i>Payment relating to:</i>	<b>2022/23 £'m</b>	<b>2023/24 £'m</b>	<b>2024/25 £'m</b>
2023/24		0.425	
2022/23	0.645		
2021/22			
2020/21			
2019/20	1.392		
<b>Total</b>	<b>2.037</b>	<b>0.425</b>	<b>0.000</b>

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

The 2023/24 Local Government Finance Settlement confirmed that the West of England 100% Business Rate Retention Pilot would continue into 2023/24. The estimated benefit is approximately £3.2m in 2023/24. The MTFS currently reflects the risk that this benefit could be removed as part of the 2026/27 financial settlement, with the Council reverting to the national funding scheme following the Local Government Financing and Fairer Funding review by the government. The government confirmed in the December 2022 Local Government Finance Policy Statement that these reforms

would not take place in the current parliament. Therefore, it is unlikely that these reforms will take place before 2026/27 due to the time needed to develop and review options for change and also to carry out the necessary consultation on the impacts of any proposals.

The 2023/24 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 2024/25 would represent a 6.7% 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 2024/25 Business Rate income forecasts currently allows for an inflationary increase of 5% 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.

### Business Rates collection fund

The MTFs factors in the increased 2022/23 actual Business Rates collection fund outturn position of £0.62m which is released in 2024/25. This forecast will be reviewed and updated to take account of the 2023/24 in year performance of the Collection Fund as part of finalising the Business Rates income forecasts for the 2024/25 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 Council's main revenue funding and included as part of the proposed budget.

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

Provisional school allocations have been received from the DfE and show an overall increase of approx. 1.25% in the total allocations. This equates to a 1.8% increase per pupil as the number of pupils funded through the National Funding Formula for B&NES has slightly decreased from 2023/24. 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 signed a safety valve agreement with 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 2027/28.

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.

We have also successfully bid for a new Special School, to be built under the free school programme. We have also bid for a new Alternative Provision school under the same programme and we await to hear the outcome.

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 2023/24.

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 2024/25. This continues the transfers that have occurred in prior years, and would amount to approx. £656k.

When schools convert to academies their reserves transfer to them and therefore school reserves have reduced significantly as a result reflecting that only 7 schools (1 Secondary and 6 Primary) 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 2023/24 settlement confirmed a further £4.1m Social Care grant funding which was combined with the continuation of the existing Social Care Support grant to give a revised total of £10.1m. This funding is assumed as recurrent in the base budget.

#### Adult Social Care Market Sustainability & Improvement Fund Grant

The 2023/24 settlement included grant funding of £1.709m through the Market Sustainability & Improvement Fund Grant, an increase of £1.216m on the 2022/23 grant of £0.493m. This funding is assumed as recurrent in the base budget with a further increase of £0.860m anticipated.

#### Adult Social Care Discharge Fund Grant

The 2023/24 settlement included new ring-fenced grant funding of £0.687m through the Adult Social Care Discharge Fund Grant. This funding is assumed as recurrent in the base budget with a further increase of £0.459m anticipated.

#### Better Care Fund

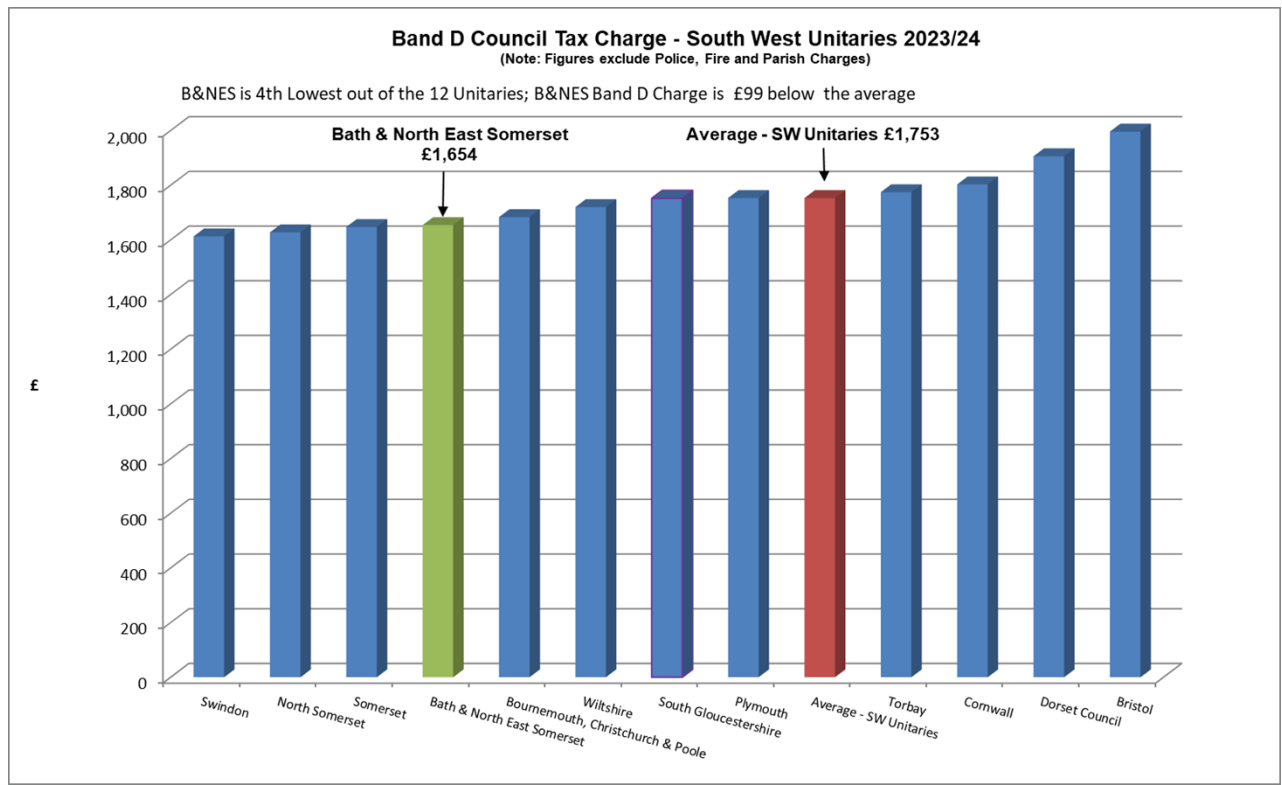
The Better Care Fund is intended to incentivize the integration of health and social care, requiring Integrated Care Boards (ICBs) and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, by enabling people to stay well, safe and independent at home for longer and to provide the right care in the right place at the right time. The Better Care Fund (BCF) is one of the government's national vehicles for driving health and social care integration.

The Council and ICB's Better Care Fund has a minimum funding contribution of £14.9m in 2023/24 a 5.66% uplift on 2022/23. 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 2023/24 Council Tax

The chart below shows how B&NES compares (4<sup>th</sup> lowest) to other South West unitary authorities:



### Council Tax collection fund

The MTFs factors in the reduced 2022/23 actual Council Tax collection fund outturn position of £0.34m which needs to be funded in 2024/25. This forecast will be reviewed and updated to take account of the 2023/24 in year performance of the Collection Fund as part of finalising the Council Tax base and income forecasts for the 2024/25 budget.

### Council Tax Precept

The current funding gap in the MTFs assumes a **2.99% increase** in council tax in 2024/25 and 1.99% in future years. This assumes that the Government's referendum principles in respect of general Council Tax will continue to allow increases of up to 3% in 2024/25, and then reduce to 2% in future years, before a referendum is required. In addition, the MTFs assumes that the Council tax base will grow with incremental growth of 0.5% for 2024/25 and then 1% per annum from 2025/26 onwards.

### Adult Social Care Precept

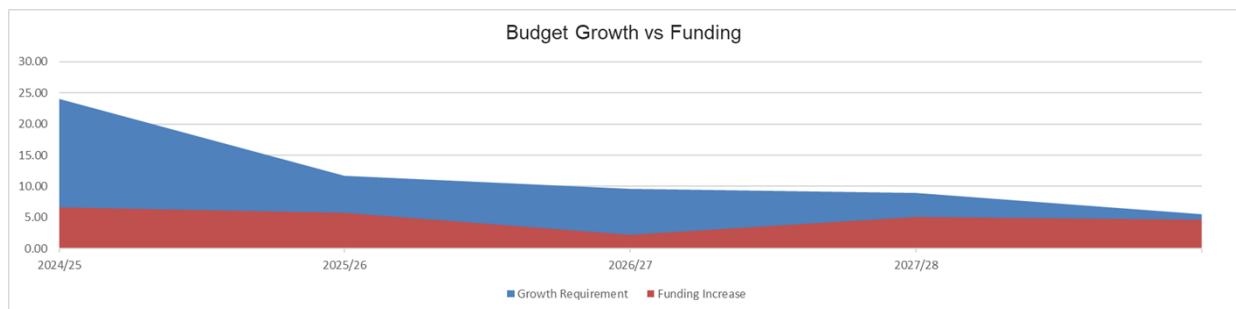
The Government, in recognising the continued pressures facing Adult Social Care (ASC) authorities, has allowed for a further 2% increase per annum for the final two years of the spending review period from 2023/24 to 2024/25. The Medium-Term Financial Plan assumes that this applies up to 2024/25 only, with any future years increases subject to further government announcement.

## 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					Total
	2024/25	2025/26	2026/27	2027/28	2028/29	
Growth Requirement	23.98	11.68	9.63	8.97	5.58	59.84
Funding Increase	6.67	5.79	2.29	5.11	4.64	24.50
<b>Annual Funding gap</b>	<b>17.31</b>	<b>5.88</b>	<b>7.34</b>	<b>3.85</b>	<b>0.95</b>	<b>35.33</b>
Savings Proposals	0.69	1.05	0.00	0.00	0.00	1.74
<b>Remaining Funding Gap</b>	<b>16.62</b>	<b>4.84</b>	<b>7.34</b>	<b>3.85</b>	<b>0.95</b>	<b>33.60</b>

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





## Indicative Budget Forecast

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

Budget Planning	Future years assumptions £m				
	2024/25	2025/26	2026/27	2027/28	2028/29
<b>Budget Requirement (Previous Year)</b>	<b>131.03</b>	<b>143.23</b>	<b>149.03</b>	<b>151.32</b>	<b>156.43</b>
Budget Adjustments	3.00	1.00	0.00	0.00	0.00
Pay & Pension	4.54	3.64	3.37	3.23	3.23
Demographic Growth	3.63	2.00	1.74	2.41	0.30
Contract Inflation	7.17	4.51	2.51	2.50	0.74
New Homes Bonus Pressure	0.42	0.00	0.00	0.00	0.00
Capital Financing	2.01	1.78	0.99	1.21	1.21
Settlement grant funding	(2.54)	0.00	0.00	0.00	0.00
Budget pressure / rebasing	5.74	(1.25)	1.03	(0.40)	0.09
<b>Funding Requirement Sub Total</b>	<b>23.98</b>	<b>11.68</b>	<b>9.63</b>	<b>8.97</b>	<b>5.58</b>
<b>Draft Budget Before Savings</b>	<b>155.00</b>	<b>154.91</b>	<b>158.66</b>	<b>160.29</b>	<b>162.02</b>
Proposed Savings Plans	(0.69)	(1.05)	0.00	0.00	0.00
Estimated Savings Required	(16.62)	(4.84)	(7.34)	(3.85)	(0.95)
<b>Savings Requirement Sub Total</b>	<b>(17.31)</b>	<b>(5.88)</b>	<b>(7.34)</b>	<b>(3.85)</b>	<b>(0.95)</b>
<b>Budget Requirement</b>	<b>137.69</b>	<b>149.03</b>	<b>151.32</b>	<b>156.43</b>	<b>161.07</b>
Business Rate Relief Adjustment*	5.54	0.00	0.00	0.00	0.00
<b>Revised Budget Requirement</b>	<b>143.23</b>	<b>149.03</b>	<b>151.32</b>	<b>156.43</b>	<b>161.07</b>
<b>Funding of Budget Requirement</b>					
Council Tax	119.39	123.34	127.05	130.87	134.81
Business rates retention*	27.34	27.39	24.87	25.56	26.26
Reserve transfers From	0.00	0.00	0.00	0.00	0.00
Reserve transfers (To)	(3.50)	(1.70)	(0.60)	0.00	0.00
<b>Funding of Budget Requirement Total</b>	<b>143.23</b>	<b>149.03</b>	<b>151.32</b>	<b>156.43</b>	<b>161.07</b>

The forecast includes the following cost pressures and assumptions:

- **Pay Inflation** – Estimated 5.00% in 2024/25, 4% 2025/26, 3% thereafter.
- **Council tax** – General assumed at 2.99% in 2024/25 then 1.99% thereafter, Social Care precept 2% until 2024/25.
- **Pension Costs** – Have been revised in line with the recent revaluation no increase up to 2026/27.
- **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 5.25% 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 5-8% this will be refreshed for the detailed budget proposal based on ONS data.
- **Budget Pressures / Rebasing** – 2024/25 budget rebasing takes into account current pressures identified in Q2 monitoring on demand driven services including Children's Services.
- **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 2024 these will be developed with the administration as part of the Corporate Strategy and at this stage have not yet been factored into the budget figures.
- **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 £35.3m 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 £23.19m, including the pre-approved savings of £1.74m. Due to the budget impact of rising demand and inflation this puts 66% of the 5 year MTFS savings in 2024/25 and 2025/26 with £17.31m to find next year.

This gives a challenging target next year which is 12% of the estimated net budget of £143.23m. 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

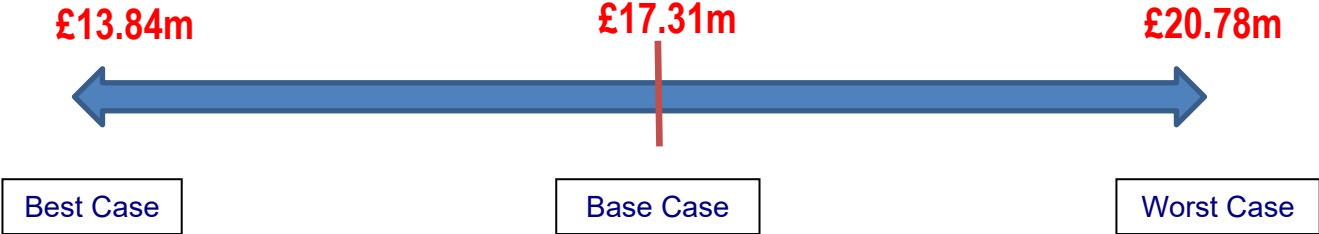
The following approach is recommended to create a robust plan of action, manage change and balance the budget.

### Budget Setting Principles

- New policy and service demand funding requirements need to be understood with robust and realistic estimates for future years.
- For new budget items un-avoidable growth only – other growth will require a defined funding source / saving.
- New savings will need to be material and over £50k per item, savings below this value will not be accepted (no use of one-off service reserves).
- The focus needs to be on high value strategic areas of change facilitated by Business Change delivering multiyear savings.
- Stop doing will need to demonstrate how risk is appropriately managed.
- Savings with reputational / political implications need early discussion with portfolio holders, with early, proportionate equality impact assessments completed.
- Savings proposals will need to have a budget profile in line with delivery plans.
- Cost and timescale for implementation needs to be fully understood and captured in the budget proposal.

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 2024/25 Budget proposal.

The savings scale below show's how the MTFFS base case presented in this report may change due to ongoing economic uncertainty that exposes the Council to fluctuations in price and demand on its services.



The base case is based on the budget assumptions and figures in section 9 of this report

The worst case builds in a 20% adverse variance to the 2024/25 budget growth items that are impacted by inflation. For the best case this is as above with a favourable 20%.

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.

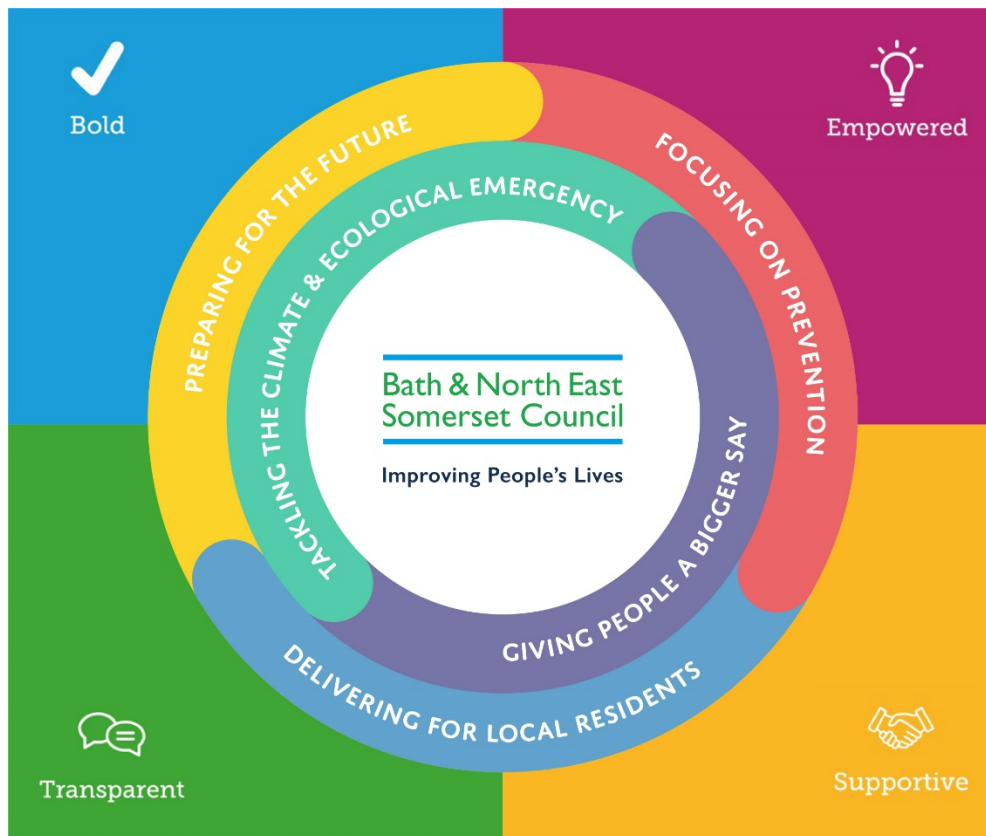
**Two:** We have two core policies – tackling the climate and ecological emergency and giving people a bigger say. These will shape everything we do.

**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.

Our four values - **bold**, **empowered**, **transparent** and **supportive** - continue to underpin all of our work.

Our Corporate Strategy to 2027 builds on our achievements and reflects the ambitions and priorities of the council’s administration elected in May 2023. It provides a clear and ambitious framework for delivery, it also sets out how shared outcomes will be embedded through partnerships such as our Future Ambition Board and Health and Wellbeing Board.

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:

- Delivery of the Council’s Being Our Best programme to enable a joined up organisational structure that meets the objectives of providing the Council with Great Jobs, Smarter Structures and a Culture of Excellence.
- Develop a new strategy and service provision of Adult Social Care services to the residents of Bath and North East Somerset.
- Focus on ensuring financial sustainability in Children’s services. This recognises the increased demand and complexity of caseload which creating more effective financial and information management which are key to creating a modern and resilient service.
- Delivery against an ambitious new Economic Strategy for Bath and North East Somerset, prioritising green growth, good jobs and affordable housing.
- Manage the Councils operational assets through the introduction of a Corporate landlord model that ensure the best use for the Council’s services and its communities.
- Continued investment to support the most vulnerable people in our communities.
- Continued commitment to secure action to address the climate and ecological emergency.

- Continue to focus on council wide business change programmes which balance service improvement within a clear return on investment framework.
- 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.

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

The Council follows this approach through:

- Continuing to review all existing schemes and simplify, 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 replacing obsolete or inefficient assets/equipment) and generate revenue savings for the council; and
- Delivering or working with partners to deliver high priority government funded programmes and West of England 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 Cabinet member 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 2023 as part of budget setting:

Capital Schemes for Approval

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Budget 2025/2026 £'m</b>	<b>Budget 2026/2027 £'m</b>	<b>Budget 2027/2028 £'m</b>	<b>Total £'m</b>
Resources	17.539	7.292	0	0	0	<b>24.831</b>
Economic Development, Regeneration & Growth	22.244	15.126	3.869	0	0	<b>41.239</b>
Leader	0.185	0.020	0.020	0.020	0.020	<b>0.265</b>
Climate & Sustainable Travel	1.693	0.313	0.146	0.032	0.008	<b>2.192</b>
Adults & Council House Building	7.563	1.442	6.636	1.442	1.442	<b>18.525</b>
Children & Young People & Communities	4.126	0.196	0.000	0.000	0.000	<b>4.322</b>
Neighbourhood Services	27.654	2.331	0.031	0.000	0.000	<b>30.016</b>
Transport	6.883	0.000	0.000	0.000	0.000	<b>6.883</b>
<b>Total</b>	<b>87.887</b>	<b>26.720</b>	<b>10.702</b>	<b>1.494</b>	<b>1.470</b>	<b>128.270</b>

Capital Schemes for Provisional Approval (Subject to)

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Budget 2025/2026 £'m</b>	<b>Budget 2026/2027 £'m</b>	<b>Budget 2027/2028 £'m</b>	<b>Total £'m</b>
Resources	28.259	3.700	4.000	4.000	4.000	<b>43.959</b>
Economic Development, Regeneration & Growth	17.330	8.228	0.020	0.000	0.000	<b>25.578</b>
Leader	1.894	0.350	0.350	0.350	0.350	<b>3.294</b>
Climate & Sustainable Travel	16.204	0.773	2.875	2.410	1.005	<b>23.267</b>

Adults & Council House Building	4.085	4.912	0.691	0.655	0.432	<b>10.775</b>
Children & Young People & Communities	21.472	1.500	0.000	0.000	0.000	<b>22.972</b>
Neighbourhood Services	5.292	16.065	20.150	10.084	16.003	<b>67.594</b>
Transport	3.675	4.476	1.293	1.163	1.163	<b>11.770</b>
<b>Total</b>	<b>98.211</b>	<b>40.004</b>	<b>29.379</b>	<b>18.662</b>	<b>22.953</b>	<b>209.209</b>

### Funded By

<b>Financing</b>	<b>Budget 2023/2024 £'m</b>	<b>Budget 2024/2025 £'m</b>	<b>Budget 2025/2026 £'m</b>	<b>Budget 2026/2027 £'m</b>	<b>Budget 2027/2028 £'m</b>	<b>Total £'m</b>
Grant	58.560	21.126	11.321	9.731	8.802	<b>109.540</b>
Capital Receipts/RTB	13.184	0.63	0.806	0	0	<b>14.620</b>
Revenue	1.000	0	0	0	0	<b>1.000</b>
Borrowing	102.460	44.465	26.657	9.27	14.891	<b>197.739</b>
3rd Party (inc S106 & CIL)	10.898	0.503	1.297	1.155	0.73	<b>14.583</b>
<b>Total</b>	<b>186.098</b>	<b>66.724</b>	<b>40.081</b>	<b>20.156</b>	<b>24.423</b>	<b>337.482</b>

Note this does not include slippage from 2022/23 which totalled £32.7m.

An allocation of £0.9m revenue budget to support new schemes has been factored into 2024/25, this is fully committed to the schemes and maintenance programmes added in the 2023/24 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 2024/25 and future years revenue budgets. The more detailed capital strategy will be updated for approval as part of the budget in February 2024.

Capital receipts will be used flexibly on appropriate revenue expenditure and further adjustments may be made as part of setting the budget for 2024/25 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.

New capital schemes will be considered on a priority basis to minimise the impact on Council funded borrowing, and where appropriate maximise the use of external funding including the application of grants.

## 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 2023/24 capital programme included a funded corporate risk contingency of £2.7m;
- 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.

## **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.

The following table shows each of the key reserves held for financial planning, the expected opening balance for 2024/25 and anticipated closing balance after the projected use:

	<b>Estimated Balance 31/03/2024</b>	<b>Proposed Transfers</b>	<b>Projected Use in Year</b>	<b>Current Estimated Balance 31/3/25</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Revenue Budget Contingency	3.20	0.00	0.00	3.20
Financial Planning and Smoothing Reserve	2.18	3.50	2.00	3.68
Restructuring & Severance Reserve	1.81	0.00	0.00	1.81



Following on from the Council’s planned use of reserves for 2021/22 & 2022/23 during the Covid pandemic, reserve balances will be replenished where used for budget setting purposes over the 5-year planning period.

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.

The Council is taking forward the being our best programme that is reviewing and implementing a new staffing structure, as a result of this programme there may be redundancies, where a redundancy generates an ongoing budget saving flexible use of capital receipts will be utilised.

**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.

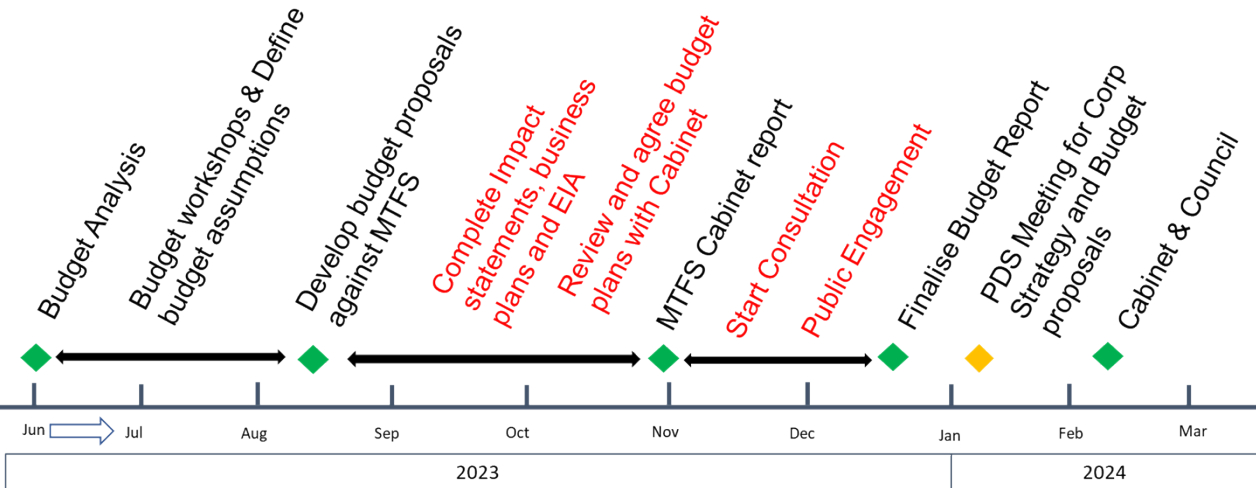
**13. Public/Stakeholder Engagement**

We will be making more information available on our MTFs for stakeholder engagement in November / December 2023, 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:

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management Update</b>
Reinstated government restrictions in the event of new Covid variants.	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 rising demand	Likely	High	There is the risk of unplanned and unbudgeted growth in demand on Council services as a result of the cost of living crises.
Ongoing 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.
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	Possible	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFs. Borrowing rates have continued to increase since the budget was set, as the Bank of England tackles more persistent

			inflation pressures. The latest forecast from our treasury management advisors is that longer term borrowing rates will eventually start to fall from current levels once service inflation and wage growth eases, with Bank of England rate cuts forecast from Q3 of 2024. However, rates will remain relatively higher than in the past with continued elevated volatility. The Council will continue to consider shorter term borrowing options alongside the PWLB.
Volatility and uncertainty around business rates	Likely	High	<p>The impacts of the current economic challenges will increase the volatility and uncertainty around business rate income. In 2023/24 this risk has been partly offset by the extension of the business rate relief scheme for Retail, Leisure and Hospitality businesses.</p> <p>We continue to monitor arrears, CVAs, and liquidations with a specific reserve held to manage in-year volatility.</p>
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
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.