

## **Appendix 1 - Bath & North East Somerset – Medium Term Financial Strategy 2025/26 - 2029/30**

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

The Medium Term Financial Strategy (MTFS) provides a budget setting 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 will model the future years funding requirement for the Council's revenue budget and identify where there are income shortfalls that require new savings plans. The strategy will set out the approach to address funding gaps prior to budget setting and the associated risks. 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 delivery of the second year of a two-year balanced budget whilst recognising new and emerging risks that may require further action and development of new savings and income plans. At this stage uncertainty remains for next year following a change in government with Council financial settlements 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 publish existing Council agreed plans and set the future years strategic resourcing plan; recognising the resourcing requirement to meet the administration's priorities to deliver the 2023 – 2027 Corporate Strategy for the Council, whilst maintaining a balanced budget over the next five 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 constrained national public finances due to continued low economic growth 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 2023/24 ended the financial year in a balanced position after transfers from reserves of **£0.13m**. 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 budget statement on 30<sup>th</sup> October 2024. This will set out the Government's revised spending plans for 2024/25 and 2025/26, with a further 3-year Spending Review covering 2026/27 to 2028/29 now planned to be announced in the Spring of 2025. The announcements will set Government Department budgets, informing the Local Government settlement that will be announced in December. The estimates within this Strategy are largely based on a rollover funding package for 2025/26 given the current national fiscal constraints. Members will be provided with an update once the future funding position is known following the budget announcements.

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 2023/24 the budget had a savings requirement of £14.38m, against this target the Council delivered savings of £11.55m (80%) with the balance either rephased to 2024/25 or addressed through the budget setting proposals. As a result of the ongoing budget challenge the 2024/25 budget requires the delivery of £16.42m 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 £28.60m (including the £13.34m already identified) in savings over the next five years. This is based on the assumption that Council tax increases are capped at 3.99% for the five year period 2025/26 to 2029/30. This consists of a general increase of 1.99% and an Adult Social Care Precept increase of 2%.

The main contributing factor that is driving the budget gap is sustained inflation and the higher interest rates due to cost-of-living, these impact the Council's running costs as well as the supply chain for external provision. In addition, the Council continues to see demand and activity rise for essential Social Care services, which is compounded by high market costs and a reliance on out of area provision.

In the shorter term the profile of the savings shows a requirement of £15.98m over the next two years (£8.41m of planned savings in 2025/26, followed by £7.57m in 2026/27, of which there are planned savings of £2.44m).

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, this is reviewed annually as part of the Council's budget proposal where the S151 Officer carries out an assessment of budget risk and reserve levels to manage these risks.

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 2025/26 financial year.

Capital spending will focus on the delivery of priority schemes within affordability levels, the 2024/25 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 2025/26 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

### 2023/24 Outturn

The Council delivered an adverse outturn position of £0.13m as follows:

Portfolio	Revised Budget £m	Outturn £m	Variance Over / (Under) £m
Leader of Council	(0.21)	(0.26)	(0.05)
Climate Emergency and Sustainable Travel	1.48	1.35	(0.13)
Council Priorities and Delivery	7.91	7.60	(0.31)
Resources	6.02	1.74	(4.28)
Economic and Cultural Sustainable Development	(1.58)	(3.92)	(2.34)
Adult Services	66.87	68.26	1.39
Children's Services	41.09	46.14	5.05
Highways	(0.37)	(2.06)	(1.69)
Neighbourhood Services	25.95	27.65	1.70
Built Environment and Sustainable Development	2.84	3.28	0.44
<b>Total (before Carry Forwards)</b>	<b>150.00</b>	<b>149.79</b>	<b>(0.21)</b>
Carry Forward Requests (underspends)			0.34
<b>Total (including Carry Forwards)</b>			<b>0.13</b>

The £0.13m overspend was funded by a transfer from 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 2024/25

The 2024/25 net budget of £135.85m was approved by Council in February 2024. Quarter 1 budget monitoring to the end of June, shows a projected overspend of £3.95m against the revised budget of £136.22m as shown below.

Current monitoring highlights the continued impact of demand pressures on Council services, which have continued to increase since budgets were approved in February 2024.

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader of Council	(0.30)	(0.31)	(0.01)
Climate Emergency and Sustainable Travel	1.27	1.22	(0.05)
Council Priorities and Delivery	2.88	2.85	(0.03)
Resources	15.83	15.31	(0.52)
Economic and Cultural Sustainable Development	(6.84)	(5.30)	1.54
Adult Services	60.82	60.83	0.01
Children's Services	35.95	38.42	2.47
Highways	(1.77)	(2.39)	(0.62)
Neighbourhood Services	25.87	26.97	1.10
Built Environment and Sustainable Development	2.51	2.57	0.06
<b>Quarter 1 Forecast Outturn Variance</b>	<b>136.22</b>	<b>140.18</b>	<b>3.95</b>

The main overspend is in Children's Services where demand-led placement and package costs continue to cause a significant pressure with the service currently forecasting a £2.47m over budget position.

Further pressures are being experienced in the Corporate Estate, Waste Services and the Regeneration Service. There is also demand pressure in Adult Social Care which are being financed by a forecast £1m transfer from the Adult Social Care Reserve. High levels of vacancies across the organisation, strong performance in Parking Services, and increased interest on cash balances and lower capital financing costs due to capital programme re-profiling are providing favourable mitigations.

Directors are actively developing mitigation plans for the service areas which are in an over budget position, identified above, to manage this position in year and bring the Council back into a balanced position. Mitigations will be reported through the quarter 2 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 continued fiscal constraints and reductions in revenue support grant funding that have occurred over the past decade or so.

The Council's revenue support grant has reduced from £31m in 2013/14 to £0.8m per annum in 2024/25, as a result we have become more reliant on external income to help fund core Council services.

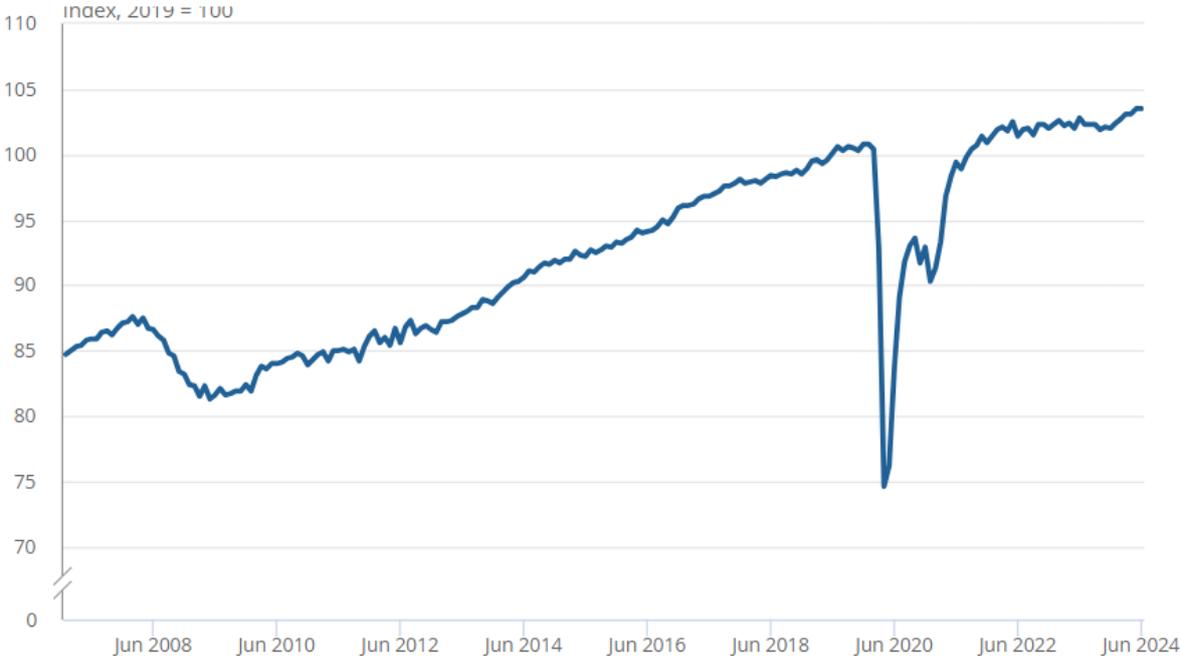
## **6. Drivers of Demand**

### 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 in Ukraine impacted on energy supply and price that drove inflation to its highest level since the 1970's.

The diagram below shows that there was no growth in monthly real gross domestic product (GDP) in June 2024, following growth of 0.4% in May 2024.

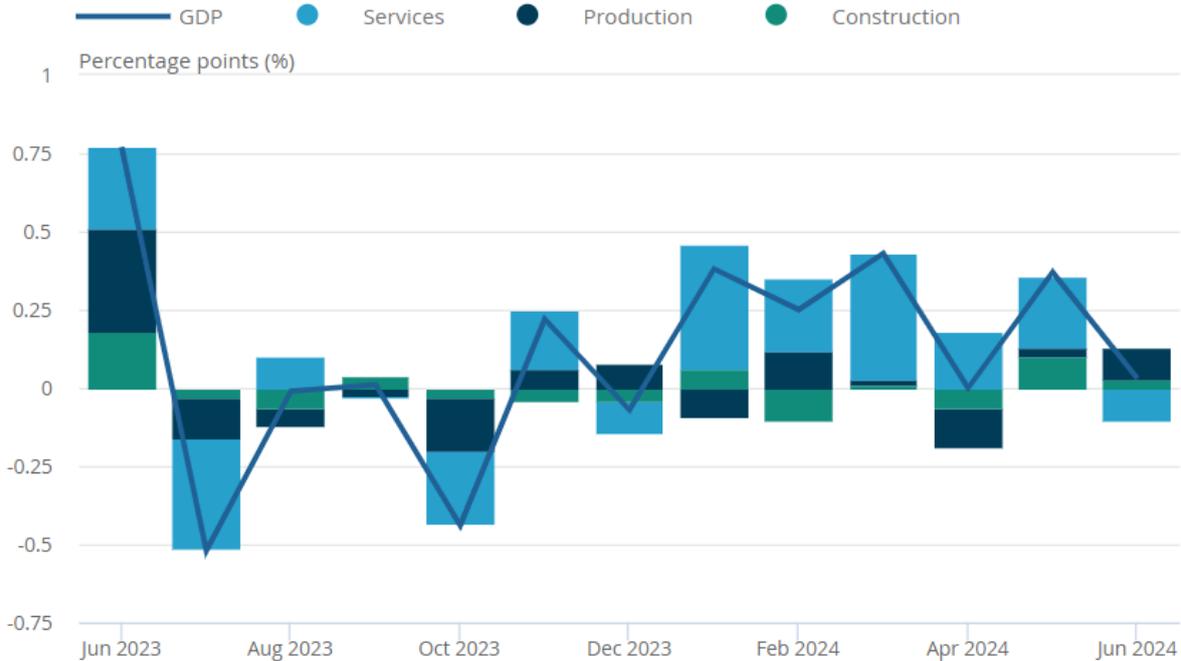
**Monthly index, January 2007 to June 2024, UK**



Source: Office for National Statistics - Monthly GDP

The chart below shows the monthly sector movements contributing to the changes in UK GDP with overall monthly movements ranging between +0.75% and -0.5% over the past year. This highlights that there has been more volatility in the service industry.

**Contributions to monthly GDP growth, June 2023 to June 2024, UK**



Source: GDP monthly estimate from the Office for National Statistics

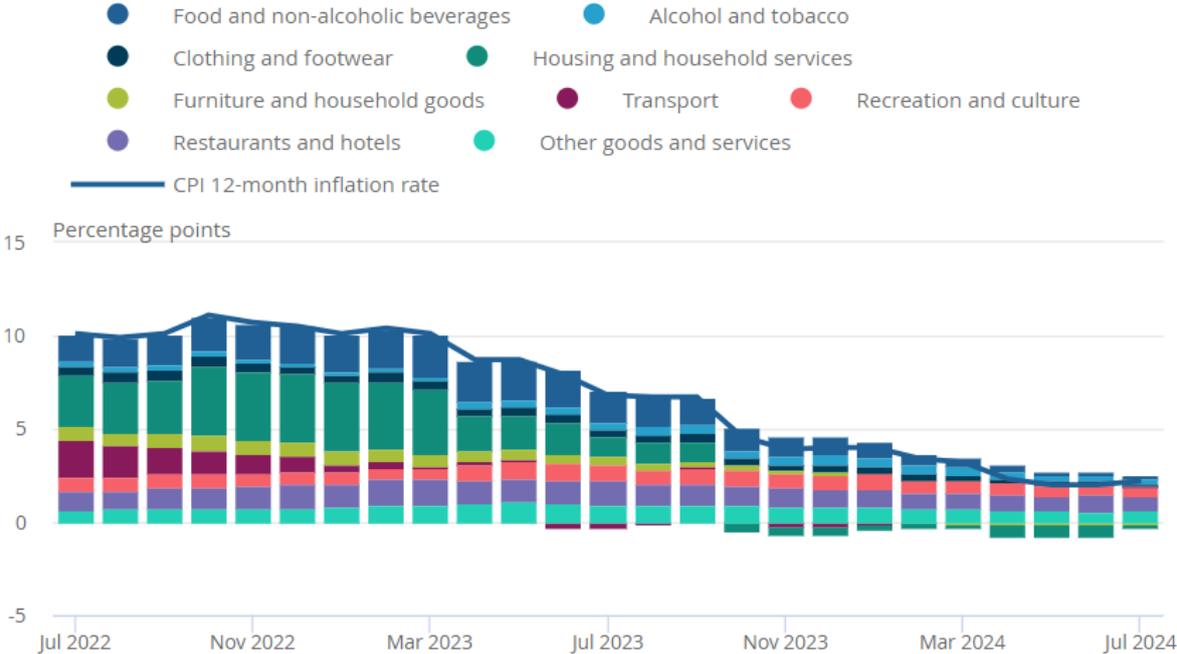
The Consumer Prices Index (CPI) rose by 2.2% in the 12 months to July 2024, compared with a rise of 2% in the period to June. On a monthly basis, CPI fell by 0.2% in July 2024, compared with a fall of 0.4% in July 2023.

The previous 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 Consumer Prices Index (CPI) inflation rate,**

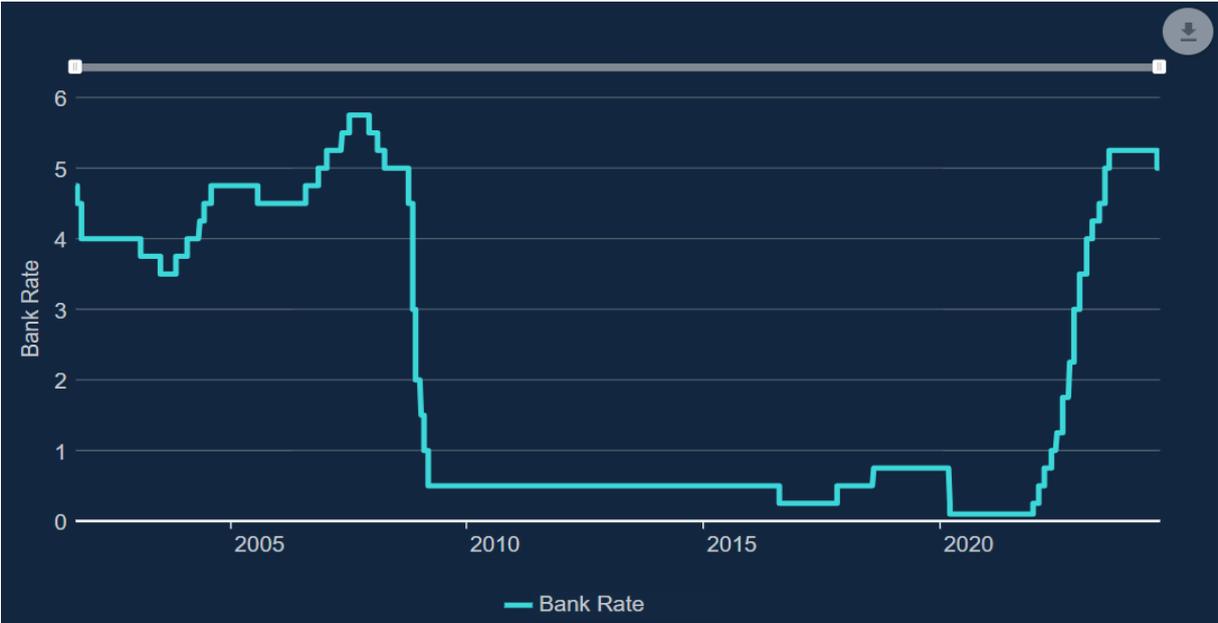
**UK, July 2022 to July 2024**



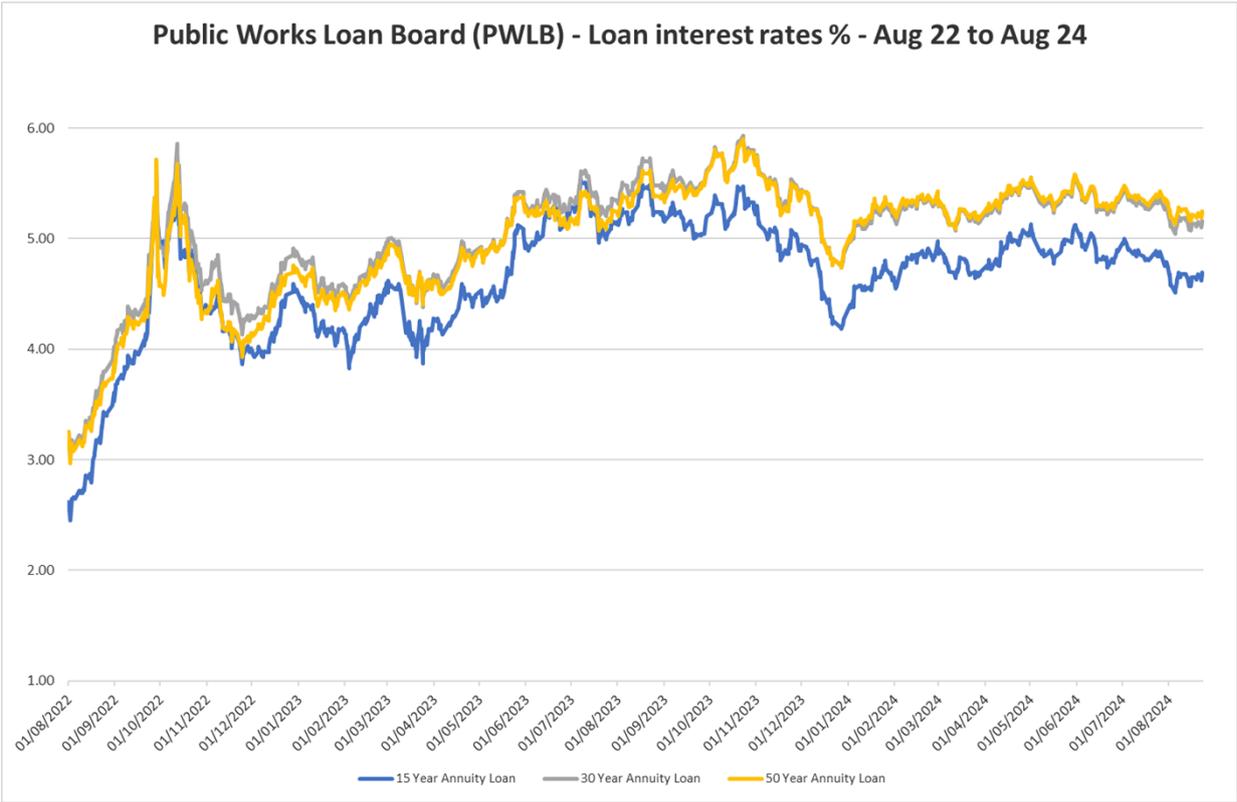
Source: Consumer price inflation from the Office for National Statistics

The Bank of England base interest rate increased from 0.10% during March 2020 to 5.25% on the 21 September 2023 where it remained until a 0.25% rate cut to 5.00% was agreed in August 2024. 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.

Economic impact on the Councils income budgets

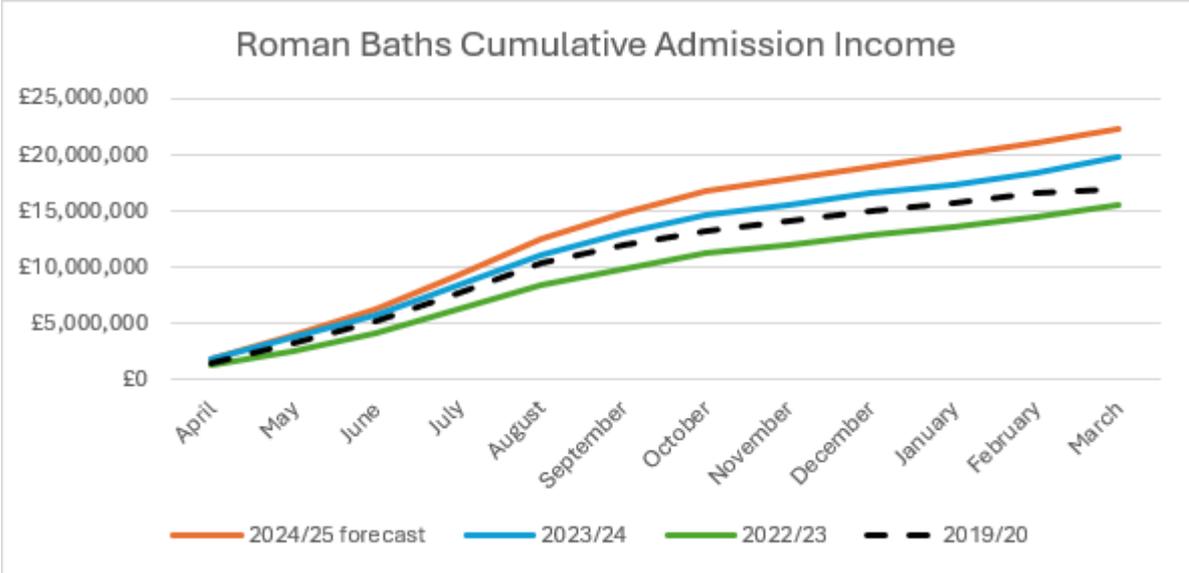
Current performance for the Council's main income generating services are below:

Culture & Heritage Services Income

Culture and Heritage Services income budgets are largely driven by visitor numbers to the Roman Baths. The budget for 2024/25 was set at 1,100,000 visitors, 92% of the pre-pandemic footfall.

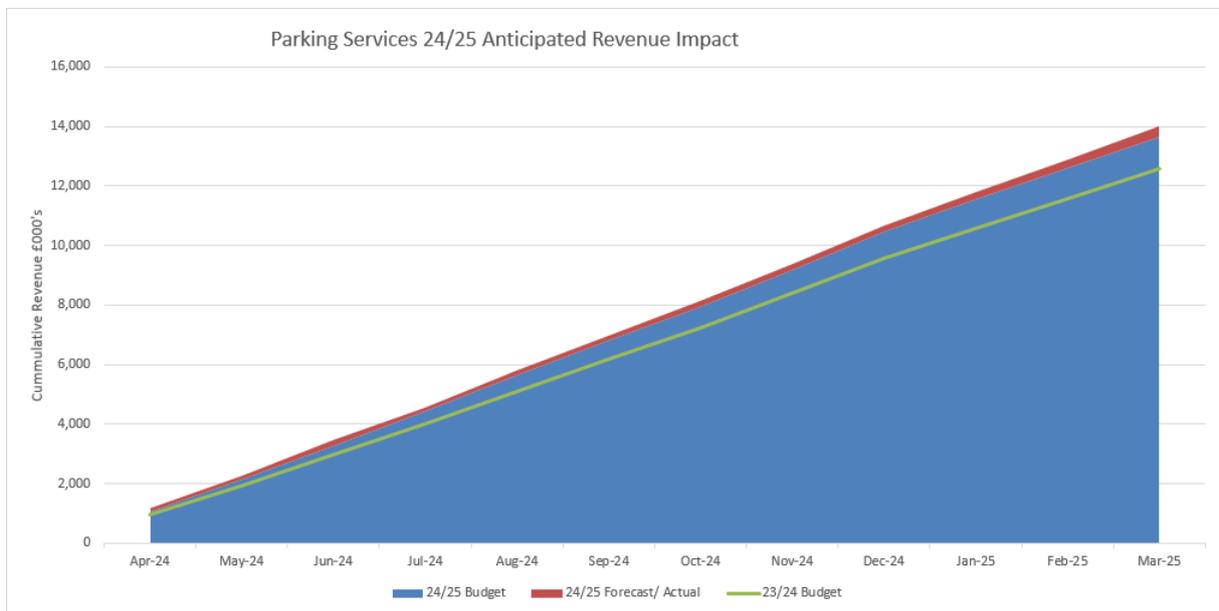
Footfall over the first quarter of the financial year was slightly down on this budget, this was driven by the early Easter and very poor weather during April. Despite being slightly down on budget, visitor numbers were 4% up on prior year during Q1 and 7% up in July.

In 2023/24 Culture and Heritage Services exceeded pre-COVID income and the chart below shows that the Service anticipates 2024/25 surpassing this total and delivering the highest income and surplus that the Service has ever returned to the Council.



Parking Services Income

Prior to the pandemic, the Parking Services income budget was c£12m. For 2023/24 the service income budget was £12.6m, this has increased to £13.7m in 2024/25. This factored in the continued increased income, but also built in revenue associated with new Residential Parking Zones (RPZs) and emissions-based charging and planned price rises. The service is currently projecting an overall year end £0.34m favourable position due to the continued strong performance of all parking locations, with a positive performance during the first quarter of 2024/25.



## 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 2024/25 settlement will continue throughout the MTFs period, this is made up as follows:

Grant	B&NES Allocation
Social Care support grant	£13.25m
iBCF Grant	£4.9m

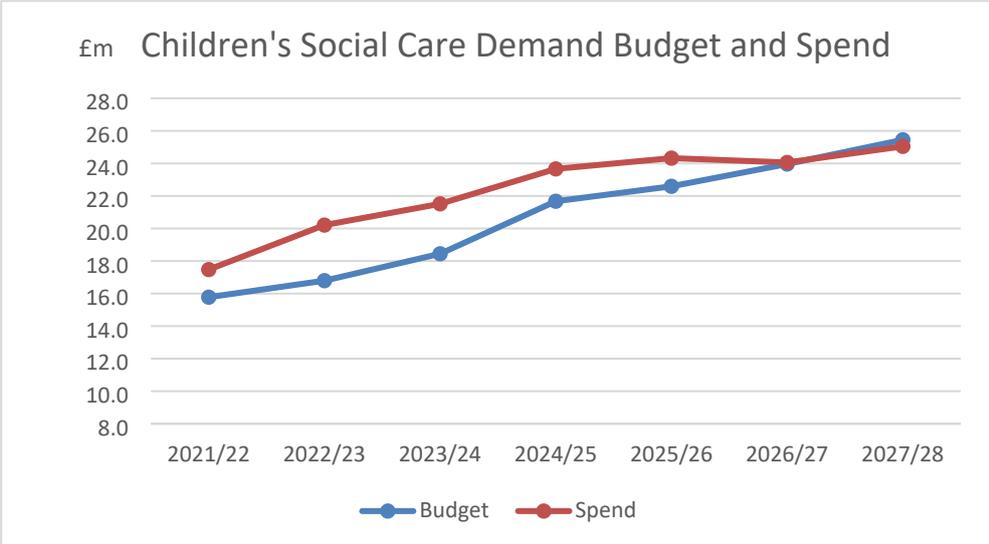
The iBCF grant is part of the pooled budget with the NHS Bath and North East Somerset, Swindon and Wiltshire (BSW) Integrated Care Board (ICB) and ring-fenced to exclusively fund Adult Social Care.

The challenges facing Adult Social Care (ASC) nationally as well as locally continue and include factors such as 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. Continued funding has been received in 2024/25 from the Adults Social Care Discharge Grant (£1.1m). This grant was distributed through the Better Care Fund and is expected again in 2025/26, assumed at the same level. Funding for Market Sustainability of £3.2m was also received from the Market Sustainability and Improvement Fund and this is expected again in 2025/26, assumed at the same level.

The MTFs allocates £11.6m for demographic and contract inflation pressures within ASC over the next five years, service demand levels are being reviewed and the current trend has shown that caseload is back to activity levels previously seen. Complexity of need and provider costs are continuing to increase.

# 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 is currently 219 . This number includes 21 that are classed as Unaccompanied Asylum Seeking Children (UASC). The MTFs allocates £7.7m 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 2023/24 outturn resulted in a DSG cumulative overspend of £22.26m. The overspend of the DSG in year in 2023/24 was £8.81m. 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 6 year period. In 2022/23, the first payment from the DfE of £7.68m was received and a further payment in 2023/24 of £0.55m has been received. A revised plan was requested by the DfE during 2023/24, this has been submitted and is awaiting agreement. 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 is being 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 continued delays in the planned Fairer Funding Review following the recent change in Government and that the Council will continue to receive the Revenue Support Grant (RSG) in 2025/26 of £0.8m based on a cash flat settlement for local government for 2025/26. The remaining RSG allocated to B&NES has been rolled into the 100% Business Rate Pilot.

### Services Grant

The Council received £0.17m from this grant in 2024/25. The MTFs assumes that the Council will receive the same level of funding in 2025/26 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 2025/26. The funding position will be confirmed in the December Provisional settlement.

### New Homes Bonus

The Local Government Finance Settlement for 2024/25 confirmed continuation of the changes made to the funding arrangements for New Homes Bonus over the past 4 years, pending consultation on a replacement scheme. This resulted in a payment of £0.327m for new housing growth over the previous year. The settlement announced that the grant element for 2024/25 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 2024/25 grant payment as one-off with no further grant anticipated reflecting the potential ending of the scheme in 2025/26.

	<b>Total New Homes Bonus Grant</b>		
<i>Payment relating to:</i>	<b>2023/24 £'m</b>	<b>2024/25 £'m</b>	<b>2025/26 £'m</b>
2024/25		0.327	
2023/24	0.425		
<b>Total</b>	<b>0.425</b>	<b>0.327</b>	<b>0.000</b>

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

The 2024/25 Local Government Finance Settlement confirmed that the West of England 100% Business Rate Retention Pilot would continue into 2024/25. The estimated benefit is approximately £3.2m in 2024/25. 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. It is unlikely that these reforms will take place before 2026/27 due to the time needed by the new Government to develop and review options for change and also to carry out the necessary consultation on the impacts of any proposals.

The 2024/25 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. 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 2025/26 Business Rate income forecasts currently allows for an inflationary increase of 2% 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 2023/24 actual Business Rates collection fund outturn position of £5.34m which is released in 2025/26. The one-off surplus will be transferred to earmarked reserves to provide £3m cover for the one-off costs of implementing the "Being our Best Programme" with a revised pay offer and new structures. The balance of £2.34m will be allocated to the transformation reserve for costs associated with service redesign and systems improvement projects that deliver service efficiencies and savings. This forecast will be reviewed and updated to take account of the 2024/25 in year performance of the Collection Fund as part of finalising the Business Rates income forecasts for the 2025/26 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.

For the 2025/26 financial year the DfE have yet to provide the provisional allocations of DSG increases. Normally these are provided in July but, due to the timing of the election, the DfE have delayed any announcements on the DSG allocations. It is anticipated that the information will be made during September. The DfE have made announcements of a new core schools grant allocation to provide both schools and the local authority with additional funding to support the recently announced pay award for teachers. The grant increase is passported to schools in a formulaic approach and the grant is usually rolled into the National Funding Formula (NFF) allocations for schools in the following financial year. It is anticipated that the schools allocation will include this new grant in 2025/26.

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. In 2022/23 the local authority signed a safety valve agreement with the DfE to agree a plan to recover the deficit in the High Needs Block of the DSG with support from the DfE. During 2023/24 due to continued pressure on the finances of the High Needs Block the DfE placed the LA in enhanced monitoring and required the LA to develop a revised plan to recover the deficit. A new plan was submitted to the DfE in May 2024, but as yet feedback from the DfE has been limited and we await formal feedback.

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 Education, Health and Care Plans (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 were 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 2024/25.

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 2025/26. This continues the transfers that have occurred in prior years, and would amount to approx. £670k.

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. We anticipate that at least 3 of these schools will convert to academy in the coming 18 months.

#### Social Care Grant

The MTFs assumes that government will not reduce grant funding into Social Care. The 2024/25 settlement confirmed a further £3.2m Social Care grant funding which was combined with the continuation of the existing Social Care Support grant to give a revised total of £13.25m. This funding is assumed as recurrent in the base budget with no further increase included for 2025/26.

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

The Local Government Finance Settlement includes grant funding for 2024/25 of £3.193m through the Market Sustainability & Improvement Fund Grant. This includes the transfer in of the Workforce Fund grant which was paid separately in 2023/24. Taken together this represents an increase of £0.374m. This funding is assumed as recurrent in the base budget with no further increase included for 2025/26.

#### Adult Social Care Discharge Fund Grant

The 2024/25 Settlement included an increase in the ring-fenced Adult Social Care Discharge Fund grant funding for 2024/25 of £0.458m taking the total grant for 2024/25 to £1.146m. This funding is assumed as recurrent in the base budget with no further increase included for 2025/26.

#### 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

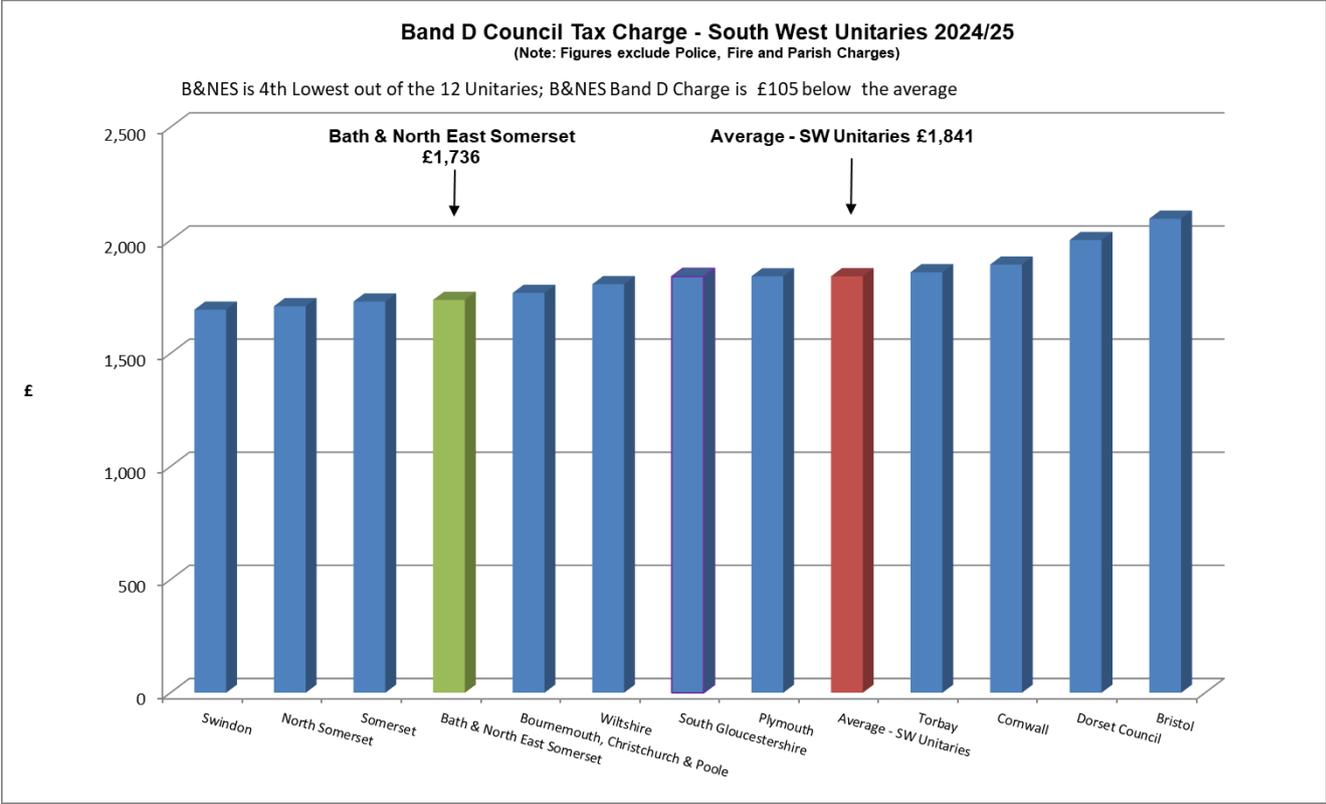
Better Care Fund (BCF) is one of the government’s national vehicles for driving health and social care integration.

The Council and ICB’s Better Care Fund has a minimum funding contribution of £15.7m in 2024/25 a 5.66% uplift on 2023/24. 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 2024/25 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 positive 2023/24 actual Council Tax collection fund outturn position of £0.37m which is released in the 2025/26 Budget. The one-off surplus will be transferred to the financial planning earmarked reserve and held for the investment in the core council customer and financial systems that are being modernised. This forecast will be reviewed and updated to take account of the 2024/25 in year performance of the Collection Fund as part of finalising the Council Tax base and income forecasts for the 2025/26 budget.

Council Tax Precept

The current funding gap in the MTFs assumes a **1.99% increase** in council tax in 2025/26 and future years. This assumes that the Government’s referendum principles in respect of general Council Tax will allow increases of up to 2% in 2025/26 and future years. In addition, the MTFs assumes that the Council tax base will grow with incremental growth of 1% per annum from 2025/26 onwards and factors in the additional income from the increased premium charged on second homes as agreed by Council in November 2023.

## Adult Social Care Precept

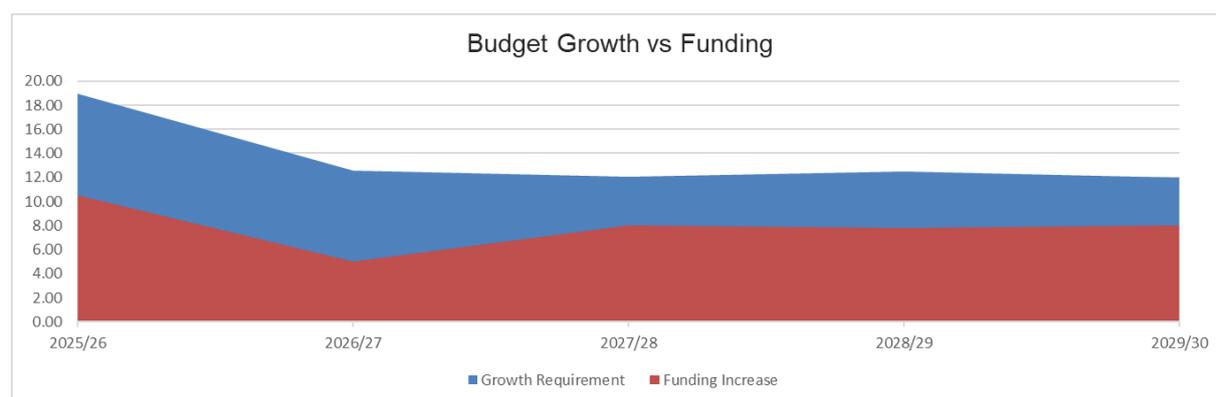
The MTFs assumes that the Government will recognise the continued pressures facing Adult Social Care (ASC) authorities, and continue to allow for a further 2% increase per annum for 2025/26 and future years.

### 9. Financial Outlook

Currently the MTFs shows a balanced position in 2025/26 with projected budget gaps in each year of the period covering 2026/27 to 2029/30 as follows:

Budget Planning	Future years assumptions £m					Total
	2025/26	2026/27	2027/28	2028/29	2029/30	
Growth Requirement	18.95	12.59	12.05	12.49	11.99	68.07
Funding Increase	10.54	5.02	8.05	7.80	8.06	39.47
<b>Annual Funding gap</b>	<b>8.41</b>	<b>7.57</b>	<b>4.00</b>	<b>4.69</b>	<b>3.93</b>	<b>28.60</b>
Savings Proposals	8.41	2.44	1.16	1.33	0.00	13.34
<b>Remaining Funding Gap</b>	<b>0.00</b>	<b>5.13</b>	<b>2.84</b>	<b>3.36</b>	<b>3.93</b>	<b>15.26</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:



Details of the current Growth Requirement and Savings Proposals are provided in Appendix 2.

## Indicative Budget Forecast

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

Budget Planning	Future years assumptions £m				
	2025/26	2026/27	2027/28	2028/29	2029/30
<b>Budget Requirement (Previous Year)</b>	<b>135.85</b>	<b>146.39</b>	<b>151.41</b>	<b>159.47</b>	<b>167.27</b>
Budget Adjustments	3.00	0.00	0.00	0.00	0.00
Pay & Pension	5.80	3.37	3.31	3.39	3.48
Demographic Growth	2.70	3.24	3.39	3.51	3.52
Contract Inflation	2.35	2.36	2.34	2.37	2.38
New Homes Bonus Pressure	0.33	0.00	0.00	0.00	0.00
Capital Financing	1.93	1.29	1.57	1.57	1.00
Settlement grant funding	0.00	0.00	0.00	0.00	0.00
Budget pressure / rebasing	2.84	2.33	1.44	1.65	1.61
<b>Funding Requirement Sub Total</b>	<b>18.95</b>	<b>12.59</b>	<b>12.05</b>	<b>12.49</b>	<b>11.99</b>
<b>Draft Budget Before Savings</b>	<b>154.80</b>	<b>158.98</b>	<b>163.47</b>	<b>171.96</b>	<b>179.26</b>
Proposed Savings Plans	(8.41)	(2.44)	(1.16)	(1.33)	0.00
Estimated Savings Required	(0.00)	(5.13)	(2.84)	(3.36)	(3.93)
<b>Savings Requirement Sub Total</b>	<b>(8.41)</b>	<b>(7.57)</b>	<b>(4.00)</b>	<b>(4.69)</b>	<b>(3.93)</b>
<b>Budget Requirement</b>	<b>146.39</b>	<b>151.41</b>	<b>159.47</b>	<b>167.27</b>	<b>175.33</b>
<b>Funding of Budget Requirement</b>					
Council Tax	128.39	134.46	141.22	148.33	155.67
Business rates retention*	25.42	17.55	18.24	18.94	19.65
Reserve transfers From	0.00	0.00	0.00	0.00	0.00
Reserve transfers (To)	(7.42)	(0.60)	0.00	0.00	0.00
<b>Funding of Budget Requirement Total</b>	<b>146.39</b>	<b>151.41</b>	<b>159.47</b>	<b>167.27</b>	<b>175.33</b>

The forecast includes the following cost pressures and assumptions:

- **Pay Inflation** – Estimated 4.00% in 2025/26 and 3% thereafter.
- **Council tax** – General assumed at 1.99% and Adult Social Care precept 2% in 2025/26 and future years.
- **Pension Costs** – Have been revised in line with the current 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** - Interest rate reductions to follow movement in Bank of England base rate currently 5.00% for treasury management cash investments. The Council will fix budget interest rates following the provisional settlement;
- **Inflation** – CPI projections modelled on current rates of 2% this will be refreshed for the detailed budget proposal based on ONS data.
- **Budget Pressures / Rebasing** – 2025/26 budget rebasing will be informed following the Q2 Council position where emerging pressures cannot be directly mitigated.
- **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;

- **Reserves** – The Council’s earmarked reserves have been reviewed with new allocations made for the implementation of the Being our Best programme and transformation and system improvement projects.

## 10. Managing the Medium Term Financial Strategy

Current estimates are that £28.6m 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 savings requirement of £15.98m, including the pre-approved savings of £10.85m. Due to the budget impact of rising demand and inflation this puts 56% of the 5 year MTFs savings in 2025/26 and 2026/27 with £8.41m to deliver next year.

### Budget management plan

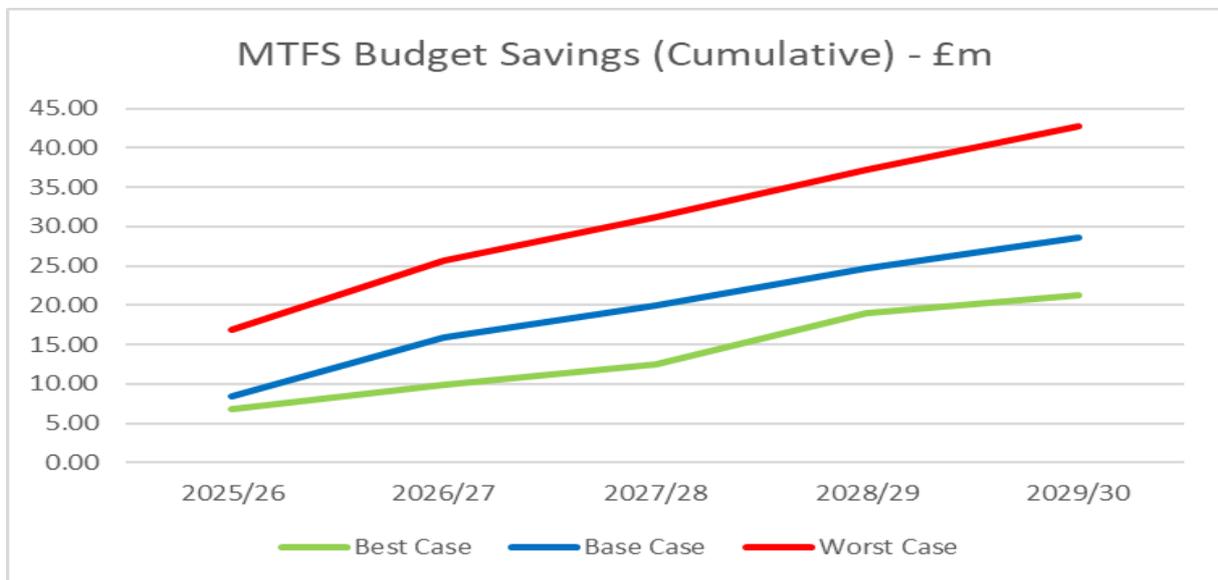
The following approach is recommended to create a robust plan of action, manage change and balance the budget.

### Budget Setting Principles

- New policy or service demand funding requirements need to be evidenced with robust and realistic estimates for future years.
- For additional budget funding, 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 enabled by Business Change delivering multiyear savings.
- Stop doing will need to demonstrate how risk is appropriately managed.
- Savings with reputational / political implications need early engagement with Cabinet portfolio holders, with early, proportionate equality impact assessments completed.
- Savings proposals will need to have a budget profile in line with delivery plans that span multiple years.
- Delivery cost and timescale for implementation needs to be fully understood and captured in the budget proposal.

To manage the strategy financially and over a longer term there will need to be cultural changes to the way we approach budget planning to ensure a fully achievable set of proposals can be taken forward from 2025/26 and across the life of the strategy.

The chart below shows how the MTFs base case presented in this report may change due to the ongoing uncertainty over future funding and risks with managing current service demand and delivering savings.



Over the 5 year MTFS period the worst case scenario has a saving requirement of £42.7m, £14.1m higher than the base case and the best case scenario has a savings requirement of £21.3m, £7.3m lower than the base case.

The savings scale below shows how the range of savings requirement for 2025/26 may change based on these risks:



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

The worst case scenario builds in allowance for the following potential adverse variations against the base case assumptions:

- Council Tax increases capped at 2.99% (1% lower than the base case) - £1.2m
- Rebasing risk allowance for 2024/25 unmitigated in year pressures - £5.4m
- 10% delivery risk allowance for 2025/26 savings and income proposals - £0.8m
- Risk allowance for lower government funding settlement in 2025/26 - £1m

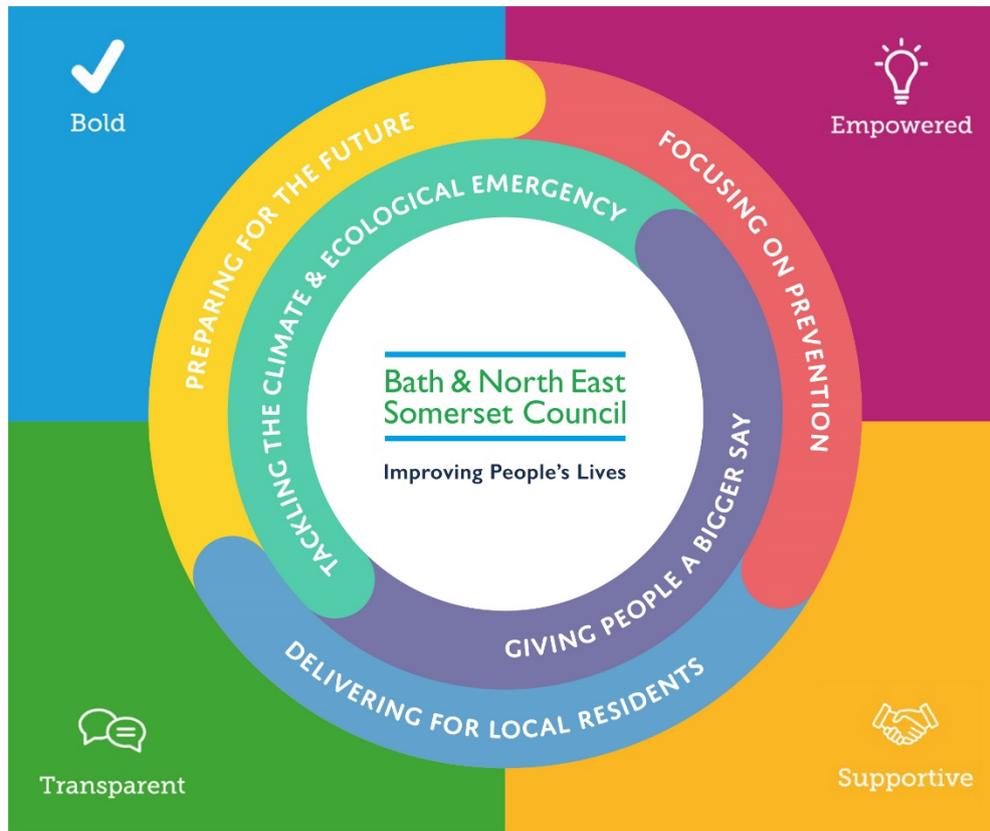
The best case scenario builds in allowance for the following potential favourable variations against the base case assumptions:

- Council Tax increases capped at 4.99% (1% higher than the base case) - £1.2m
- New Homes Bonus funding continues at current levels - £0.3m
- 100% Business Rate Pilot scheme continues for 3 more years instead of 1 more year - £3.2m (pressure moved back from 2026/27 to 2028/29)

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 Council's Corporate Strategy as set out in the diagram below:



<https://beta.bathnes.gov.uk/document-and-policy-library/corporate-strategy-2023-2027>

Alignment to the strategy creates 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.

### Prioritising and allocating resources

To address longer-term financial planning and ensure corporate priorities shape our financial planning, for the 2026/27 and future years' budgets we are developing a more strategic approach built around:

- Identification of key scenarios, particularly in the light of central government fiscal policy and approach to local government funding
- Agreeing key priorities which will support delivery of our Corporate Strategy, in the light of the resources available to the council over the medium term
- Establishing a longer-term approach to budget planning, including investing in prevention to address budget pressures and reduce costs

- Introducing a new operating model which delivers the council's purpose through innovation in our ways of working

An update on this work will be reported as part of the budget papers in February 2025, with the new strategic approach to budget-setting being put in place beginning with the 2026/27 budget preparation process.

## 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 to simplify, challenge deliverability and put forward a more accurate funding and expenditure profile over multiple years;
- 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 2024 as part of budget setting:

Capital Schemes for Approval

<b>Cabinet Portfolio: Capital Schemes</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>Budget 2028/2029 £'m</b>	<b>Total £'m</b>
Resources	19.177	0	0	0	0	<b>19.177</b>
Economic & Cultural Sustainable Development	15.175	2.068	8.030	15.846	7.000	<b>48.119</b>
Leader	0	0	0	0	0	<b>0</b>
Climate Emergency & Sustainable Travel	1.948	0.247	0.032	0.008	0	<b>2.235</b>
Built Environment & Sustainable Development	4.002	4.318	0	0	0	<b>8.320</b>
Adult Services	1.800	1.441	1.442	1.442	1.442	<b>7.567</b>
Children's Services	8.287	3.271	0	0	0	<b>11.558</b>
Neighbourhood Services	5.167	0.257	0.020	0.020	0.02	<b>5.484</b>
Highways	16.357	0	0	0	0	<b>16.357</b>
<b>Total</b>	<b>71.913</b>	<b>11.602</b>	<b>9.524</b>	<b>17.316</b>	<b>8.462</b>	<b>118.817</b>

Capital Schemes for Provisional Approval (Subject to)

<b>Cabinet Portfolio: Capital Schemes</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>Budget 2028/2029 £'m</b>	<b>Total £'m</b>
Resources	8.893	4.500	4.500	5.500	5.500	<b>28.893</b>
Economic & Cultural Development	11.309	17.452	14.038	12.605	4.550	<b>59.954</b>
Leader	0.206	0	0	0	0	<b>0.206</b>
Climate Emergency & Sustainable Travel	7.368	7.559	2.460	1.015	0.550	<b>18.953</b>
Built Environment & Sustainable Development	14.359	21.478	8.105	0.382	0	<b>44.324</b>
Adult Services	2.202	0.050	0.050	0.050	0.050	<b>2.402</b>
Children's Services	17.800	10.374	0.359	0	0	<b>28.533</b>
Neighbourhood Services	7.875	7.655	9.607	9.250	1.402	<b>35.789</b>
Highways	11.024	10.027	8.997	8.997	9.122	<b>48.167</b>
<b>Total</b>	<b>81.035</b>	<b>79.096</b>	<b>48.116</b>	<b>37.798</b>	<b>21.174</b>	<b>267.220</b>

## Funded By

<b>Financing</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>Budget 2028/2029 £'m</b>	<b>Total £'m</b>
Grant	52.856	40.166	15.828	8.812	8.489	<b>126.151</b>
Capital Receipts/RTB	11.183	0.994	1.000	0	0	<b>13.177</b>
Revenue	3.878	0.020	0.040	0.020	0.020	<b>3.978</b>
Borrowing	77.315	46.028	38.583	43.294	20.124	<b>225.344</b>
3rd Party (inc S106 & CIL)	7.717	3.490	2.189	2.987	1.003	<b>17.386</b>
<b>Total</b>	<b>152.949</b>	<b>90.698</b>	<b>57.640</b>	<b>55.113</b>	<b>29.636</b>	<b>386.036</b>

Note this does not include slippage from 2023/24 which totalled £17.4m.

An allocation of £1.4m revenue budget to support new schemes has been factored into 2025/26, this is fully committed to the schemes and maintenance programmes added in the 2024/25 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 2025/26 and future years revenue budgets. The more detailed capital strategy will be updated for approval as part of the budget in February 2025.

Capital receipts will be used flexibly on appropriate revenue expenditure and further adjustments may be made as part of setting the budget for 2025/26 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 2024/25 capital programme included a funded corporate risk contingency of £2.5m;
- 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 earmarked reserves held for financial planning, the expected opening balance for 2025/26 and anticipated closing balance after the projected use:

	<b>Estimated Balance 31/03/2025</b>	<b>Proposed Transfers</b>	<b>Projected Use in Year</b>	<b>Current Estimated Balance 31/3/26</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Revenue Budget Contingency	2.88	0.50	0.00	3.38
Financial Planning and Smoothing Reserve	4.77	0.37	0.69	4.45
Transformation Investment Reserve	0.00	3.55	1.00	2.55
Job Evaluation & Pay Structure Reserve	0.00	3.00	1.50	1.50
Restructuring & Severance Reserve	1.88	0.00	1.88	0.00

Where earmarked reserves are used for budget setting purposes, balances will be replenished 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.

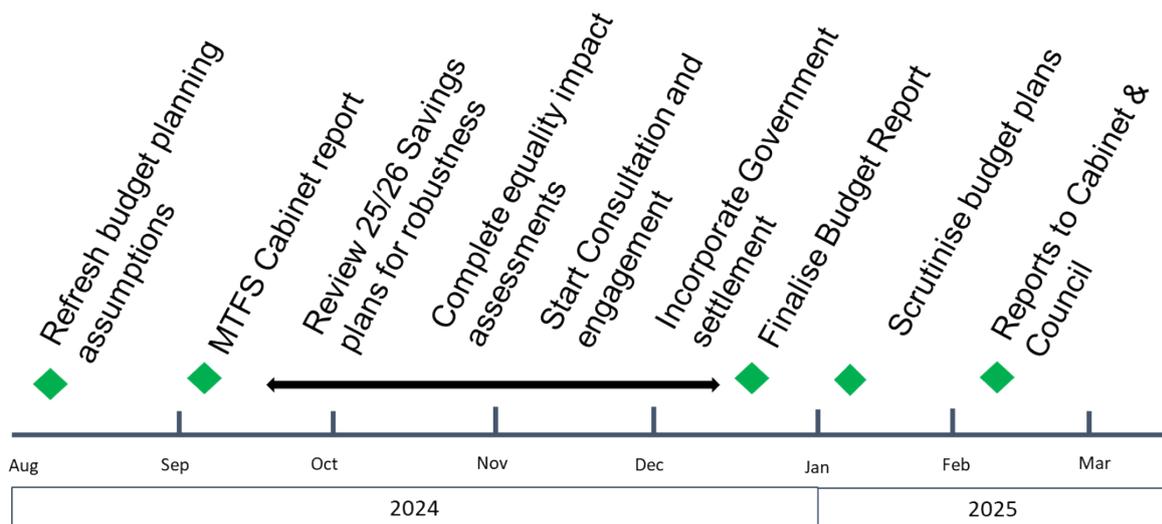
## 13. Public/Stakeholder Engagement

We will be making more information available on our MTFS for stakeholder engagement in November / December 2024, 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 Covid variants.	Low	High	This is certainly a material risk, whilst not one the Council has direct control over, every step would be 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, particularly in Adult & Children's Social Care.
Viability risk on the Councils Commercial Estate assets held for income generation.	Possible	High	Current asset reviews have identified that due to the age and complexity of the Councils Commercial Estate, some assets operating costs and capital investment needs may exceed annual rental income values. This will be managed through a detailed asset review that informs a programme of prioritisation for investment in the estate.
Contract inflationary pressure	Possible	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 risk contingency for potential 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 pressures there is the risk that Council reserve levels are not enough to manage in-year and future years risk.
Interest rates increase	Possible	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFS. The latest forecast from our treasury management advisors is that longer term borrowing rates will remain volatile within a relatively narrow range with movements linked to the likelihood of base rate reductions in the US, the UK and the Eurozone.
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 2024/25 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	New government policy and funding decisions that will become clearer following the Chancellor's October Budget Statement are likely to have an impact on resourcing of Council services and priorities.
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.