

# **Bath & North East Somerset - Medium Term Financial Strategy 2019/20- 2023/24**

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

This Medium Term Financial Strategy (MTFS) provides a framework for budget setting. It explains the financial context and the targets, as well as the financing mechanisms available to the Council.

This strategy 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

The focus is on the next two years for financial planning purposes, however, there is significant uncertainty beyond 2019/20 because the national approach to funding local government is currently under review. The Strategy assumes that funding constraints will continue and therefore will link to a Core Service Offer outlining the priority areas of service delivery that will be maintained.

This strategy also provides the background for budget consultation due to take place this autumn.

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

The objective of this document is to set the context to enable a budget setting and financial planning process that will deliver a balanced budget for the next five years, but with the focus on the next two years.

A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. B&NES will look to ensure sound plans are in place to balance the budget over the medium to longer term rather than year to year balancing.

The financial strategy will integrate with and support the corporate priorities for the Council and a Core Services Offer will be finalised to deliver those priorities. The unprecedented scale of the financial challenge, the additional demands on the Council especially for social care, and the scope to use new ways of working notably digital communications, all indicate the need for different ways of working and greater prioritisation of activity and spend. For some services, a different relationship with customers and communities may also be needed.

## **3. Executive Summary and Recommendations from the Strategy for Consideration**

This strategy spans five years although there is only certainty of the level of Government funding for next year at present. The recent consultation paper

outlined that several funding streams are being reviewed for 2020/21 these include Fairer Funding, Business Rate Retention, New Homes Bonus, and Better Care Funding and these changes pose a significant financial risk for B&NES in 2020/21.

Despite the 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 with £55.4m delivered between 2013/14 to 2017/18 and, a further £17m expected in this financial year – a total of £72.4m over six years. These estimates show that the Council will need to find a further £50.3m in savings over the next five years. In essence the Council will need to reduce net spend by approximately 44.5% (15.2% of gross spend) over the next five years.

The current plans identified, delivered, and will continue to deliver a high number of efficiency savings and therefore the scope for delivering further large savings from efficiencies is limited. The agreed approach is:-

- To review Council priorities to understand scope for further savings;
- To rationalise our corporate estate;
- To review the conditions of service of our workforce and ensure they are fit for the future;
- To review the scope for shared services;
- To review and target capital spend to priority areas and reduce the costs of funding the programme and the capacity demands for delivery;
- To review our contracts to reduce expenditure; and
- To establish a “core offer” which the council is able to sustain into the future, including through managing demand.

In the shorter term the profile of the savings shows a requirement of £29.3m over the next two years (£16.0m in 2019/20 of which there are planned savings of £9.8m, followed by £13.3m in 2020/21). To ensure that there is sufficient time to consider and implement savings as well as the future operating model for B&NES the strategy is dependent on the continued use of flexible capital receipts in 2019/20.

The current budget gap does not include any increases in Council Tax – an increase of 3% per annum reduces the overall five year gap by £14.3m.

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 2019/20 and the following years.

#### 4. Introduction

The Council's Corporate Strategy was adopted by Council at their meeting on 16<sup>th</sup> February 2016. It set out the 2020 Vision and the Council's direction of travel. The Council's four strategic priorities as set out in the Corporate Strategy are outlined below:-

- A strong economy and growth;
- A focus on prevention;
- A new relationship with customers and communities; and
- An efficient business.

An Operational Plan will be developed across portfolios in 2019/20 outlining the Core Service Offer which will prioritise resources to the following:-

- Protect and care for our most vulnerable;
- Nurture our residents' health, safety, and wellbeing;
- Provide ways for everyone in the community to reach their full potential.

This will outline key targets for service provision as well as outlining proposals for budget savings. Inevitably, this will mean making tough choices over what services B&NES can provide and how services can be delivered with our local community groups, parishes and the voluntary sector playing an increasingly important role.

#### 5. The Current Financial Position

##### 2017/18 Outturn

The 2017/18 outturn reported an overspend position of £1.1m to Cabinet in June 2018 as follows:-

Portfolio	Original Budget £'m	Revised Budget £'m	Outturn £'m	Variance £'m
Leader	5.16	2.58	2.47	(0.11)
Finance & Efficiency	(2.38)	0.73	0.05	(0.68)

<b>Portfolio</b>	<b>Original Budget £'m</b>	<b>Revised Budget £'m</b>	<b>Outturn £'m</b>	<b>Variance £'m</b>
Transformation & Customer Services	4.43	7.16	6.94	(0.22)
Adult Care, Health & Wellbeing	59.55	60.51	61.66	1.15
Children & Young People	25.28	28.03	29.56	1.53
Economic & Community Regeneration	(3.60)	(4.13)	(4.77)	(0.64)
Development & Neighbourhoods	20.49	20.89	20.75	(0.14)
Transport & Environment	3.96	(0.09)	0.11	0.20
<b>Total</b>	<b>112.89</b>	<b>115.67</b>	<b>116.77</b>	<b>1.10</b>

(Excluding carry forwards of £155k)

#### Budget 2018/19

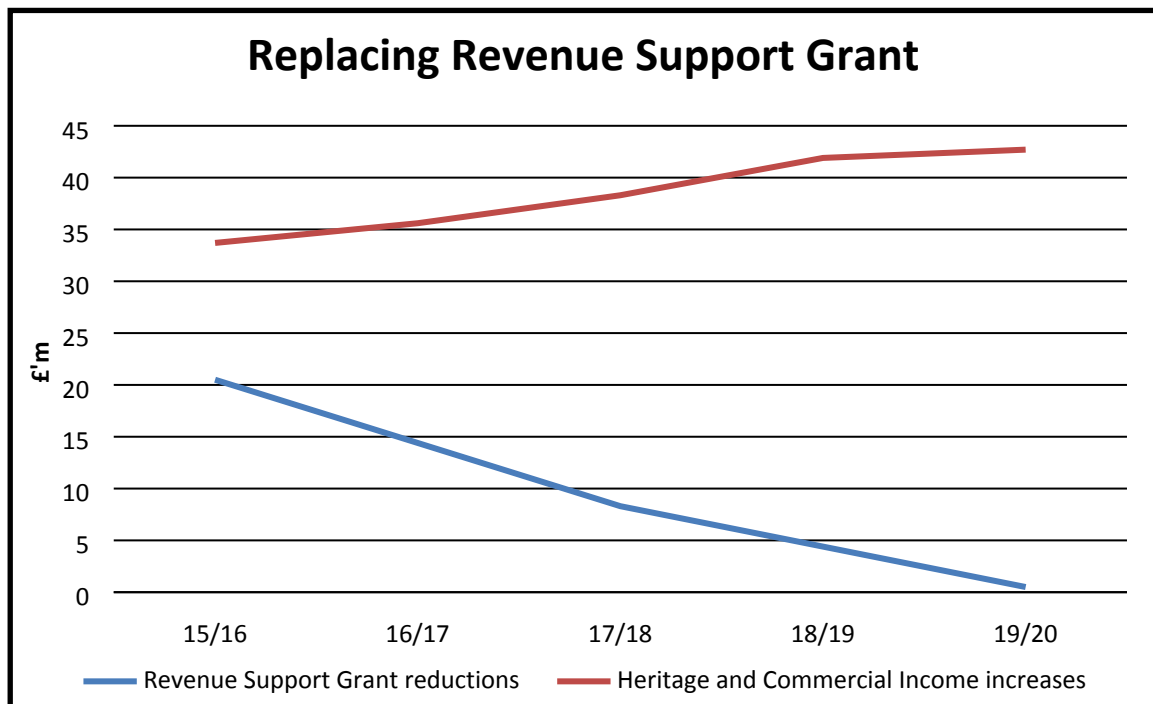
The 2018/19 net budget of £113.27m was approved by Council in February 2018. Budget monitoring to the end of July showed a projected overspend of £2.63m against the revised budget of £115.92m (including carry forwards) as shown below:-

<b>Portfolio</b>	<b>Revised Budget £'m</b>	<b>Forecast Year End Actual £'m</b>	<b>Variance Over / (Under) £'m</b>
Leader	2.28	2.41	0.13
Finance & Efficiency	3.45	4.09	0.64
Transformation & Customer Services	5.77	6.07	0.30
Adult Care, Health & Wellbeing	62.99	62.03	(0.96)
Children & Young People	27.53	28.43	0.90
Economic & Community Regeneration	(5.54)	(5.41)	0.13
Development & Neighbourhoods	18.47	19.00	0.53
Transport & Environment	(1.66)	(0.70)	0.96
<b>Total</b>	<b>113.29</b>	<b>115.92</b>	<b>2.63</b>

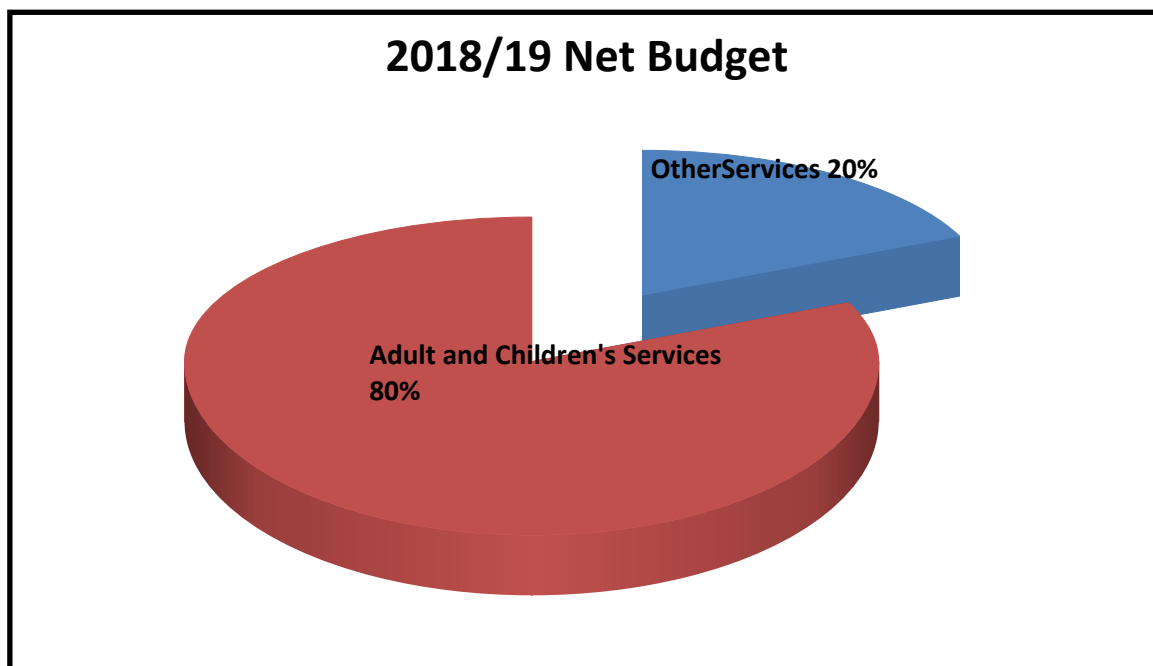
The figures show an upturn in demand and financial pressures especially in Children and Young People’s services and Transport and Environment. It also highlighted that a continued focus is required to delivering the savings that were agreed as part of budget setting to bring spend back in line with the budget.

### Analysis of Current Position

Local Government has suffered from continued reductions in funding – Revenue Support Grant will have reduced from £20.5m in 2015/16 to £0 by 2020/21. Current forecasts show that B&NES will have replaced around £8.8m of the reduction in grant from heritage and commercial income activities over the same time period as follows:-



Cuts in grants and increases from demand, in line with other authorities and a growing population, have created pressures for Adult Social Care and Children’s Services. The budget was rebased in 2018/19 to reflect this and a net £7m was added to Adult Social Care and Children’s Services. In 2015/16 around £0.66 in each £1 (net) was spent on Adult Social Care and Children’s Services and this has increased to £0.80 in every £1 in 2018/19. The following chart shows the breakdown of the net 2018/19 budget as set:-



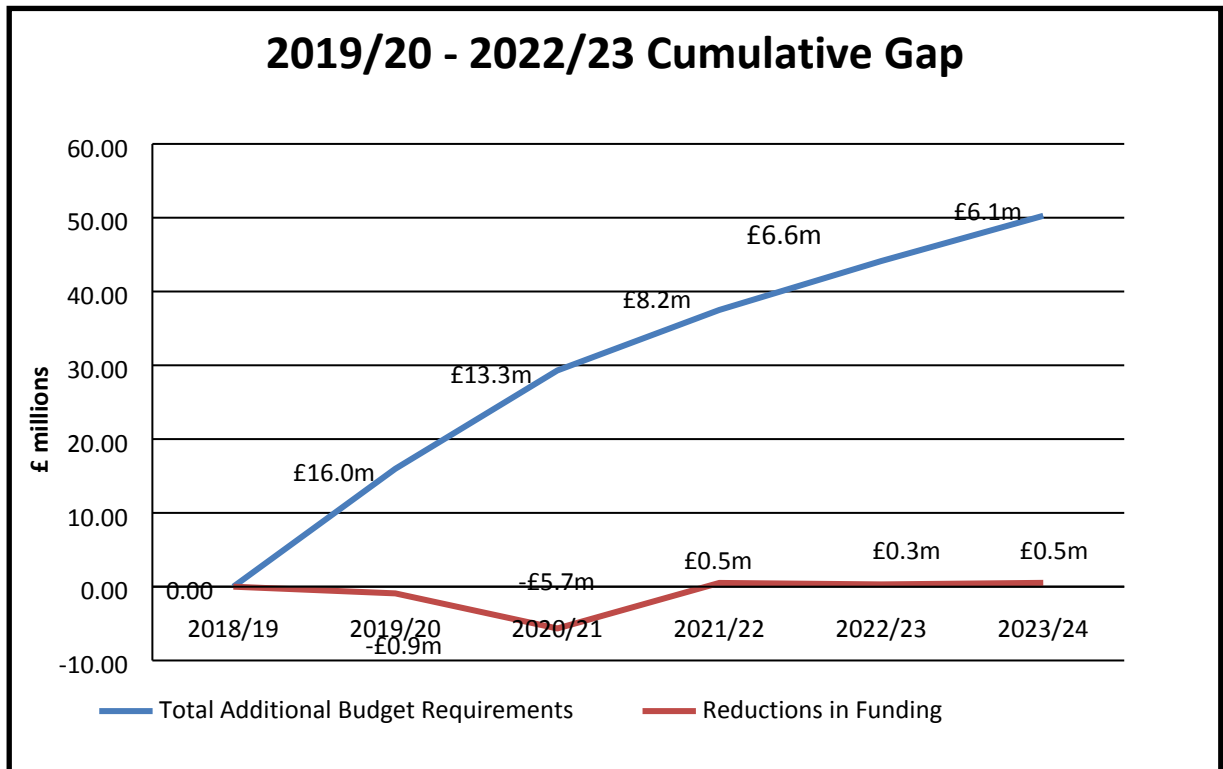
Following feedback from last year's budget engagement process, a document has been prepared which sets out how the council seeks to influence central government's policy agenda, focusing on new powers to raise revenue to create a more self-sufficient authority. This document will be presented to full Council in November 2018 and aims to ensure the authority remains sustainable without requiring additional central funding. The proposals have not been incorporated into the MTFS at this stage. It is unlikely that any changes can be implemented for 2019/20 but may be agreed in time for the 2020/21 budget.

## 6. Financial Outlook

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

Indicative Budget Forecast	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
Estimated Base Budget	113.27	128.86	122.62	118.92	118.77	119.68
Estimated Funding	(113.27)	(112.88)	(109.30)	(110.72)	(112.14)	(113.55)
Cumulative Funding Gap	-		29.30	37.50	44.13	50.26
<b>Annual Funding Gap</b>	-	<b>15.98</b>	<b>13.32</b>	<b>8.20</b>	<b>6.63</b>	<b>6.13</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:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'m	£'m	£'m	£'m	£'m
<b>Budget Requirement (Previous Year)</b>	<b>113.27</b>	<b>112.88</b>	<b>109.30</b>	<b>110.72</b>	<b>112.14</b>
Once-Off items from previous year	-0.15	-0.45	-	-	-
Pay inflation	1.66	1.24	1.21	1.21	1.22
National living wage impact	0.18	0.19	0.20	0.21	0.22
Pension Contributions	0.05	0.61	0.61	0.61	0.61
Demographic Growth & Increase in Service Volumes	3.35	3.38	3.38	3.38	3.38

Contractual Inflation	1.52	1.54	1.49	0.53	0.42
Budget Pressures	5.81	-0.82	0.12	0.10	0.00
Provision for amber rates savings in future years	0.80	1.00	0.60	0.40	0.30
Increase(-)/ Reduction in New Homes Bonus Grant	-0.07	1.93	0.91	1.11	0.90
Reduction in Public Health Grant	0.22	-	-	-	-
Capital Financing	2.11	1.11	1.11	0.50	0.50
Increased Business Rates income (incl s31 grants)	-0.34	-	-	-	-
Once-off costs	0.45	-	-	-	-
<b>Draft Budget Before Savings</b>	<b>128.86</b>	<b>122.62</b>	<b>118.92</b>	<b>118.77</b>	<b>119.68</b>
<b>Savings Proposals</b>					
Agreed Savings Plans	9.83				
Further Savings Required	6.15	13.32	8.20	6.63	6.13
<b>Budget Requirement</b>	<b>112.88</b>	<b>109.30</b>	<b>110.72</b>	<b>112.14</b>	<b>113.55</b>
<b>Funding of Budget Requirement</b>					
Council Tax @ 0%	81.92	82.74	83.57	84.40	85.20
Adult Social Care Precept 1% in 2019/20	6.55	6.62	6.69	6.75	6.82
Business Rate Retention incl Revenue Support Grant	24.56	19.94	20.46	20.99	21.54
Business Rates Reserve	-0.60	0.00	-	-	
Use of Financial Planning Reserve for Once-Off Costs	0.45	-	-	-	
<b>Funding of Budget Requirement</b>	<b>112.88</b>	<b>109.30</b>	<b>110.72</b>	<b>112.14</b>	<b>113.56</b>



The forecast includes the following cost pressures and assumptions:-

- **Pension Costs** – Estimated 0.2% increase in 2019/20 and a further 1% per annum from 2019/20;
- **Interest Rates** - Continued very low rates of interest of around 1% per annum for treasury management cash investments. The Council will maintain a minimum cash policy;
- **Inflation** – CPI projections for the coming years are expected to be 2.2% in 2019/20, 2.1% in 2020/21 and 2.0% thereafter. However it is expected that services will continue to absorb all but a limited amount based on specific service circumstances and contractual commitments;
- **Capital Spending** – an allowance has been made to fund a minimal number of new schemes;
- **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;
- **Growth requests** - currently totalling £1.5m for 2019/20 and £0.3m for 2020/21 **have not yet been factored into the plan**. These will only be considered once the gap has been funded and if headroom is created.

## 7. Outlook for Government Grant Funding

During 2016, the Council provided an Efficiency Plan submission to the Government as part of a national scheme, to secure the basis of a 4-year financial Settlement through to 2019/20. This was agreed by the Government and provides some protection to the Council against any additional funding reductions in revenue support grant over this period.

In Spring 2018 the Government issued a consultation regarding future funding for Local Authorities (LA's) – The Fairer Funding Review. The review has the aim of revising and updating the distribution of funding between LA's. This review does not measure the level of funding required for Local Government as a whole its objective is purely to assess the relative needs and pressures of authorities to ensure that the distribution of funding between authorities is fair.

B&NES responded to the fair funding consultation and requested that the following areas needed to be included in any revised funding methodology:-

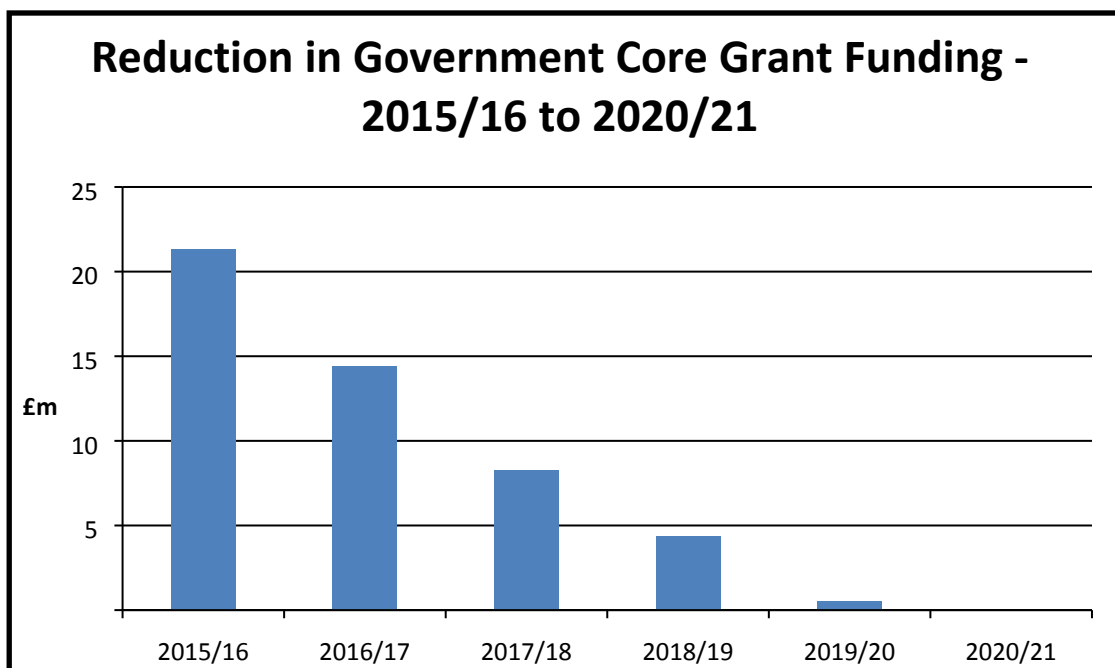
- funding for student households;
- ability to introduce a Local Tourism Levy;
- full cost recovery of planning fees;
- funding for Special Education Needs and Disability;
- charges for listed building applications;
- removal of the NDR exemption for Listed Buildings;

It is expected that the new methodology will be used to distribute funds from 2020/21 onwards. It is also expected that transition arrangements will be put in place to dampen the effect of significant distribution changes between L.As.

The Government released a consultation paper on the 24<sup>th</sup> July 2018 outlining its intention to continue with the 4-year financial settlement. The possible impacts on various grants are outlined under the grant headings below:-

### Revenue Support Grant

The strategy assumes that the 4-year settlement will continue to 2019/20 and that a further reduction of £0.49m in 2020/21 will to remove any remaining RSG (note the remaining RSG has been rolled into the 100% Business Rate Pilot).

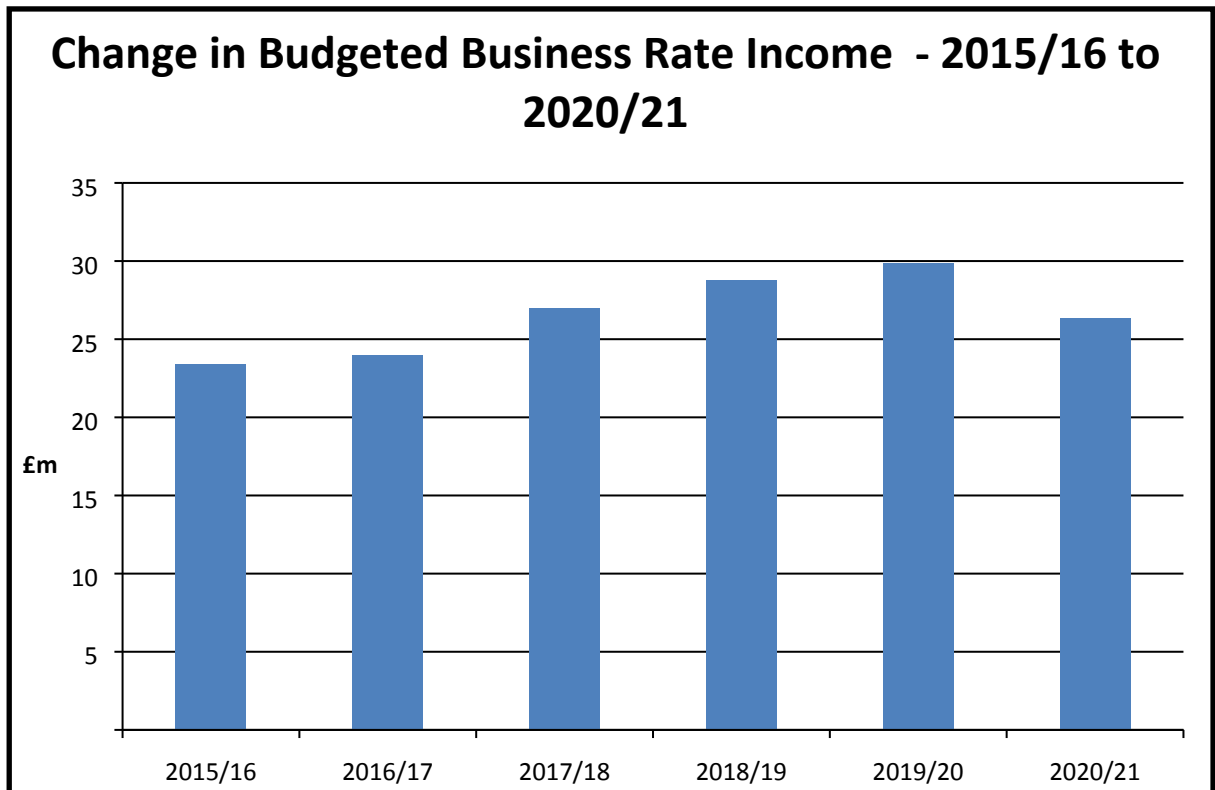


### New Homes Bonus

The 2017/18 Settlement announced changes to the funding arrangement for the New Homes Bonus with the bonus reducing to 4 years in 2018/19. The current consultation paper for the 2019/20 settlement outlines that the housing growth baseline could increase thus reducing the number of homes for which the Council will receive the bonus. The consultation paper does not suggest what the increased baseline will be. Our estimations are currently based on 0.6% which would reduce the bonus by approximately £0.268m increasing the value of bonus withheld to £0.802m. The grant has been estimated at £4.86m for 2019/20. The consultation also states that New Homes Bonus will cease from 2020/21 and will be replaced with a different incentive. For financial planning purposes the grant has been phased out between 2020/21 and 2023/24.

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

In 2016 the Government announced that it was introducing pilot schemes for 100% business rate retention from 2017/18. The current consultation paper outlines the Government's intention for the current combined authority pilots including the West of England to continue into 2019/20 with other authorities invited to present proposals for a one year 75% pilot.



(Note – the chart shows budgeted income rather than actual which is at risk from appeals etc)

The estimated benefit of £2.5m per annum for this Council was factored into the Budget in 2017/18. The strategy assumes that this benefit will only remain in place for 2019/20 and, as other grants will be rolled into the 75% retention model, this will result in an estimated £3.6m reduction in funding for 2020/21. The strategy also assumes that a baseline reset will occur in 2020/21.

As part of the proposed Budget, reasonable assumptions have been made for likely levels of future Business Rate income, together with specific provisions for appeals and growth. Any surplus or deficit on the Business Rate Collection Fund will be transferred to an earmarked reserve for consideration as part of the Business Rates calculations for future years.

## 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. It is estimated that over 80% of schools will have converted to academies by September 2019 and that all schools will develop plans to convert in the coming years. With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG. The pressure added £2.3m to the budget in 2018/19 with a further £0.3m in 2019/20 and 2020/21. Additionally the schools have contributed 0.5% (£500k) of the Schools Block Funding to support the high needs budget, these contributions are limited to 1 year under the NFF regulations and therefore further consultation is currently underway to gain the same transfer from the Schools Block in 2019-20 as occurred in 2018/19.

When schools convert to academies their reserves transfer to them and therefore school reserves have reduced significantly as a result reflecting that only 20% remain as maintained schools.

## Adult Social Care Support Grant

The Council received a once-off sum of £0.46m as part of the final financial settlement for 2018/19. The Government has announced a further £240m in this financial year to help reduce winter pressures on the NHS, of this sum £730k has been allocated to B&NES. The use of the funding is aimed at reducing Delayed Transfers of Care (DTC) and authorities will be required to meet certain conditions for its use. The current settlement consultation paper is silent on further distribution for 2019/20 and therefore no further grant has been factored into the MTFS.

## Adult Social Care Green Paper

The Secretary of State recently announced that the Green Paper on Adult Social Care would be published in the autumn to align with the NHS Plan with the intention to "ensure that the care and support system is sustainable in the long term". The total funding for Adult Social Care will be determined as part of the 2019 Spending Review.

The Government recently announced an increase of £20bn in funding for the NHS by 2023. There is currently no direct evidence that funding will be redirected from Local Government at this stage but this remains a risk until plans become clearer.

### Better Care Fund

The Better Care Fund is intended to incentivise the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, in particular by reducing avoidable hospital admissions and facilitating early discharge from hospital.

The Council and CCG's Better Care Fund has a minimum CCG funding contribution of £11.4m in 2018/19; whilst 2019/20 allocations have not been announced it is assumed that this will continue with inflation at c1.9%. In 2018/19 £8.78m of this amount transferred to the Council for joint commissioned services and the protection of Social Care.

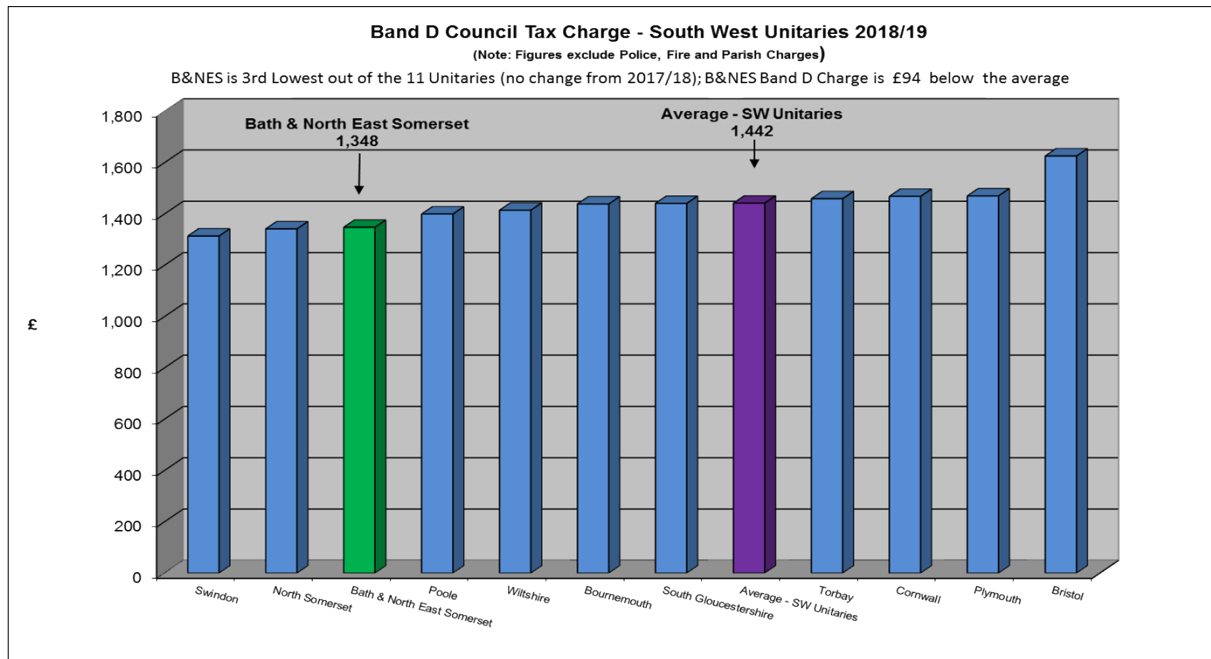
In addition to the minimum contribution the Chancellors budget announced 3 years of grant funding for adult social care from 2017. For 2019/20 the local allocations of one-off funding of £4.03m, an increase from the 2018/19 grant allocation of £0.57m this funding is pre-committed through the agreement of the Better Care Fund plan and is helping to protect current Social Care spending levels and meet the national conditions for the BCF plan including improving delayed transfers of care (DTC) performance. Whilst there have been no further funding announcements it is assumed that this level of funding will continue beyond 2019/20.

The Better Care Fund is under review and the Council and CCG's financial planning assumptions will be aligned to incorporate future years funding allocations and planning guidance when published.

## **8. Council Tax**

### Comparison of 2018/19 Council Tax

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



### Adult Social Care Precept

The Government has recognised some of the pressures facing Adult Social Care (ASC) authorities, providing for a continuation for a specific increase in the local council tax precept ringfenced to ASC. B&NES approved an increase of 2% in 2017/18, and 3% in 2018/19, and the strategy currently estimates a further 1% increase in 2019/20. The current consultation paper does not outline further proposals to extend the precept beyond 2019/20 and therefore no further increases have been factored in at this time.

These costs pressures facing ASC have been identified by the Council as part of the financial planning process, and include:

- The ongoing impact of Government's national living wage and other wage pressures such as "sleep in" care;
- An increasingly challenged care market, struggling to recruit and retain staff, which is impacting on the quality and availability of care home placements, which, in turn is increasing the fee levels it is necessary to pay to secure placements; and
- Increasing demand and demographic pressures including Learning Disabilities care placements transitioning into working age;
- Transitional costs for the mobilisation and service transformation through the *your care, your way* contract;

## Council Tax Precept

The current funding gap in the MTFS assumes **no increase** in council tax. Any increase would need to take into consideration the Government's referendum principles which are currently based on the requirement to hold a referendum for increases above 3%. An increase of 3% per annum would raise an additional £2.6-£3m per annum and an ongoing £14.3m by 2023/24. The table below shows the impact on the funding gap if an additional 3% increase per annum for Council Tax were to be implemented:-

<b>Indicative Budget Forecast</b>	<b>2019/20</b> £m	<b>2020/21</b> £m	<b>2021/22</b> £m	<b>2022/23</b> £m	<b>2023/24</b> £m	<b>Total</b> £m
Annual Funding Gap	15.98	13.32	8.20	6.63	6.13	50.26
Income from a 3% increase in Council Tax	(2.63)	(2.76)	(2.87)	(2.99)	(3.02)	(14.27)
<b>Annual Funding Gap</b>	<b>13.35</b>	<b>10.56</b>	<b>5.33</b>	<b>3.64</b>	<b>3.11</b>	<b>35.99</b>

The Government has factored 3% increases into each authority's "Spending Power" and funding figures.

## Long Term Empty Properties

Properties that are empty for more than two years are currently liable for a surcharge of 50%. The Government is in the process of passing legislation to enable Local Authorities to increase this to 100% surcharge from the 1<sup>st</sup> April 2019. This premium is important as an incentive to bring back Long Term Empty properties back into use. Proposals may be brought forward for consideration when full details are known.

## **9. Strategy for Savings**

Current estimates are that £50.3m savings will be required over the next five years (if council tax is not increased other than for Adult Social Care). This includes savings already approved.

The profile of savings shows that £29.3m will be required - £16.0m in 2019/20 followed by £13.2m in 2020/21. This strategy aims to smooth the savings required to increase the time needed for assessment and consultation of those savings plans.

The savings strategy can be delivered as part of the authority's assessment of its **long term delivery model and Core Services Offer**. This can be achieved through:-

- **Priority based resourcing** to develop options to reduce spend by:-
  - Reducing or stopping services but maintaining a Core Services Offer;
- **Maintain commercial income to;**
  - Increase discretionary charges only where appropriate;
  - Ensure statutory charges are based on full cost recovery.
- **Shared services where appropriate/ right sizing:-**
  - Review shared service opportunities with the CCG, WECA, and other local authorities;
  - Assess future staffing and management requirements through new ways of working/digital/estates to deliver the core offer.
- **Targeted capital spend:-**
  - Minimise the impact of capital spend by reviewing schemes and minimising new additions through prioritisation.
- **Managing Demand (and the processes surrounding demand)**
  - E.g. signposting and investing in self-help and early intervention to reduce demand on specialist roles.
- **Contract Savings**
  - Review of all contract spend to reduce costs.
- **Capital Programme**
  - A review of the capital programme is being carried out as part of preparing next year's budget with the following objectives:-
    - To ease staffing capacity issues;
    - Ease financial pressures
    - Ensure schemes still meet key priorities;
    - Review financial and delivery risks;



## 10. Capital Programme

The Prudential Code for Capital Finance in Local Authorities was updated in December 2017. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

It required authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decision are made with sufficient regard to the long term financial implications and potential risks to the authority.

To ensure that the capital programme remains affordable the following approach will be taken:-

- Continue to review all existing schemes and simplify, reduce, pause or stop as necessary;
- Minimise new schemes except those that meet corporate priorities;
- Agree an affordable limit for new schemes requiring corporate borrowing;
- Ensure adequate investment in assets supporting key service provision (including meeting health and safety requirements or replace obsolete or inefficient assets/equipment);and
- Deliver or work with partners to deliver high priority government funded programmes and WoE programmes where they meet corporate priorities.

The Capital Programme will retain the clear separation of schemes for **Full Approval** and those which are for **Provisional Approval**.

Items gaining **Full Approval** are clear to proceed to full scheme implementation and delivery, subject to appropriate project management and governance.

Items for **Provisional Approval** will require either a further Officer decision and in some cases a formal Executive decision for Full Approval. The budget estimates for schemes shown for Provisional Approval are therefore included on an indicative basis, and as an aid to planning.

The Capital Programme will retain narrative only reference to pipeline projects and grant funding in early stage progression. These items will require further decision to incorporate into the programme at a later date, in line with the delegations outlined in the February Budget report.

The capital programme is aligned with the Community Infrastructure Levy allocations agreed for the coming financial year.

The following shows the capital programme approved in February 2018 as part of budget setting:-

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2018/219 £'m</b>	<b>Budget 2019/20 £'m</b>	<b>Budget 2020/21 £'m</b>	<b>Budget 2021/22 £'m</b>	<b>Budget 2022/23 £'m</b>	<b>Total £'m</b>
Development & Neighbourhoods	9.13	5.04	-	-	-	<b>14.17</b>
Economic & Community Regeneration	37.35	-	-	-	-	<b>37.35</b>
Transport & Environment	12.63	-	-	-	-	<b>12.63</b>
Children & Young People	7.21	-	-	-	-	<b>7.21</b>
Adult Care, Health & Wellbeing	0.21	-	-	-	-	<b>0.21</b>
Finance & Efficiency	16.53	19.23	4.00	-	-	<b>39.76</b>
Corporate Capital Contingency	0.05	-	-	-	-	<b>0.05</b>
<b>Total</b>	<b>83.11</b>	<b>24.27</b>	<b>4.00</b>	<b>-</b>	<b>-</b>	<b>111.38</b>

Provisional schemes:-

<b>Cabinet Portfolio: Capital Schemes</b>	<b>Budget 2018/19 £'m</b>	<b>Budget 2019/20 £'m</b>	<b>Budget 2020/21 £'m</b>	<b>Budget 2021/22 £'m</b>	<b>Budget 2022/23 £'m</b>	<b>Total £'m</b>
Development & Neighbourhoods	23.53	3.31	2.60	0.95	1.693	<b>32.08</b>
Economic & Community Regeneration	33.48	14.14	13.25	14.99	2.14	<b>78.00</b>
Transport & Environment	8.89	11.60	6.01	4.93	1.30	<b>32.72</b>

Children & Young People	10.80	2.15	-	-	-	<b>12.95</b>
Adult Care, Health & Wellbeing	0.10	-	-	-	-	<b>0.10</b>
Finance & Efficiency	54.25	5.12	2.54	2.44	2.20	<b>66.55</b>
Transformation & Customer Services	3.14	-	-	-	-	<b>3.14</b>
<b>Total</b>	<b>134.19</b>	<b>36.31</b>	<b>24.40</b>	<b>23.31</b>	<b>7.33</b>	<b>225.55</b>

<b>Grand Total</b>	<b>217.30</b>	<b>60.58</b>	<b>28.40</b>	<b>23.31</b>	<b>7.33</b>	<b>336.93</b>
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Note this does not include slippage from 2017/18 which totalled £38.5m.

The current capital programme that was approved in February 2018 was funded as follows:-

<b>Financing</b>	<b>Budget 2018/19 £'m</b>	<b>Budget 2019/20 £'m</b>	<b>Budget 2020/21 £'m</b>	<b>Budget 2021/22 £'m</b>	<b>Budget 2022/23 £'m</b>	<b>Total £'m</b>
Grant	43.06	9.65	6.97	6.17	3.14	<b>68.99</b>
Capital Receipts/RTB	9.97	16.39	0.63	0.63	0.63	<b>28.25</b>
Revenue	1.53	-	-	-	-	<b>1.53</b>
Borrowing	148.74	33.30	19.96	16.26	3.45	<b>221.71</b>
3rd Party (inc S106 & CIL)	14.01	1.24	0.84	0.25	0.10	<b>16.44</b>
<b>Total</b>	<b>217.31</b>	<b>60.58</b>	<b>28.40</b>	<b>23.31</b>	<b>7.32</b>	<b>336.92</b>

(Note that of the total borrowing c£135m is linked to investments that will provide an income stream to the Council)

Grants funding received as part of the 2018/19 budget from the WECA for feasibility studies and business case development for infrastructure schemes include:

- £280k A37 to A362 Improvements to access Somer Valley Enterprise Zone business case development;
- £460k Hicks Gate Roundabout improvement business case development;
- £250k East of Bath Link development support; and

- £100k Freezing Hill Lane Junction Improvement feasibility and business case development.

These are funded from the additional investment funds received by the WECA as part of the devolution arrangements and reflected accordingly with the Councils revenue and capital budget proposals.

An allocation of up to £0.5m in revenue to support new schemes has been factored into each year of the Medium Term Financial Plan. Part of the allocation for 2019/20 was earmarked in 2018/19 for schemes leaving £0.34m remaining. This enables high priority schemes to be approved as well as considering the impact on the revenue budget. A more detailed capital strategy will be presented for approval as part of the budget in February 2019.

Capital receipts will be used flexibly and further adjustments may be made as part of setting the budget for 2019/20 to replace some of the capital receipts with borrowing to ensure the first call on any receipts is to maintain flexibility within revenue. The current programme will continue to be reviewed to ease this financial impact.

The intention is to take a measured approach between borrowing in the current market climate and the utilisation of internal cash flow wherever possible. Borrowing has been factored into the strategy to ensure that the authority can meet its future borrowing obligations as well as taking advantage of current low interest rates. The decision on the timing of new borrowing will still be driven by market factors, particularly movements in interest rates to provide overall value for money to the Council

### Capital Risk Contingency

There are three levels of risk provision in relation to the capital programme.

- Individual major projects within the capital programme hold their own contingency in accordance with good project management practise to meet unavoidable and unforeseen costs;
- The capital programme includes a funded corporate risk contingency which will be maintained at £2m;
- The corporate risk assessment on which the general reserves target is based includes an element in the context of the capital programme based on the risks of the current programme.

As with all capital projects, relevant risks are being considered as part of the overall risk-assessed general reserves and the Corporate Risk Register.

### Minimum Revenue Provision (MRP) Policy

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum

Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve a MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy was updated in February 2017 and there are currently no revisions proposed.

## **11. Releasing Capital Receipts to Fund Savings Projects**

Central Government outlined in December 2015 that local authorities will be able under certain circumstances to utilise capital receipts for revenue expenditure for certain purposes. These include for example:-

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Sharing Chief-Executives, management teams or staffing structures;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or regional procurement hubs;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, selling services to others).
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery;
- Improving systems and processes to tackle fraud and corruption;

Further guidance was released in March 2016 which outlined a simpler approach to allow authorities to utilise receipts if the spend resulted in an ongoing saving. The guidance is clear however that expenditure should be once-off and the flexibility cannot be utilised for ongoing expenditure.

The Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming and subsequent years.

The strategy in future years will monitor the performance of projects approved in previous years. The Strategy does not require further amendment since being approved as part of budget setting in February 2018.

## 12. 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.

The current strategy for Non-Earmarked Reserves remains unchanged and will continue to be based on a financial risk assessment. The current target is to retain Non-Earmarked reserves within the range of £11.9m to £13.1m. The reserve is currently expected to remain within this range to meet key financial risks.

A review has taken place of key reserves as part of the overall MTFs to assist with medium to long-term financial planning and to smooth the impact of the quantum of savings required in each year. The management of these reserves is fundamental to the delivery of this strategy. The following table shows each of those key reserves and the expected balance at the end of the 2018/19 financial year:-

	Unallocated Balance as at 1/4/18 £'m	Projected Use in Year £'m	Current Estimated Balance 31/3/19 £'m
Revenue Budget Contingency	2.38	1.73	0.65
Financial Planning and Smoothing Reserve	6.41	4.07	2.34
Transformation Investment Reserve	2.38	1.74	0.64
Restructuring & Severance Reserve	2.23	-	2.23

The Budget Monitoring Report presented to Cabinet in September outlined that if the estimated over budget of £2.63m were to occur then £1.73m would need to be found from the Revenue Budget Contingency Reserve. This will need monitoring closely as there will be a requirement to top up this reserve for 2019/20 to £1.5m to meet budget risks next year. This will be found from reviewing all other reserves and also the use of any once-off income such as council tax surplus (noting that there are once-off requests for £0.45m already in the plan). The remaining reserves outlined above are being utilised as planned in the 2018/19 budget.

#### Using Reserves to Smooth Savings Targets

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.

### **13. 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.

### **14. Public/Stakeholder Consultation**

Planned public consultation will take place in November/December 2018.

Planned scrutiny of the MTFS through the Policy Development and Scrutiny Panel is planned for November 2018 with savings being scrutinized in January 2019.

### **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</b>
Further demands on service continue to escalate beyond current estimates	Possible	High	Ongoing monitoring of spend and controls. Ensure reserves are sufficient to manage in-year pressures
Pay awards will be higher than estimated	Unlikely	Medium	Agreement in place for 2019/20.
Interest rates reduce further impacting on investment income	Unlikely	Low	Rates are predicted to increase rather than decrease although the impact on interest rates

			post Brexit remains a risk. A prudent view has been taken within the MTFP and cash is being utilised for purchase of assets while rates are low
Interest rates increase	Likely	Medium	A reserve is available for borrowing to manage market risk and long term borrowing costs have been factored into the longer-term MTFs
Volatility and uncertainty around business rates	Likely	High	Ensure business rate income and appeals are monitored and that specific reserve is sufficient to manage in-year volatility
The Business Rates 100% pilot ceases	Unlikely in 2019/20	High	It has been confirmed that Combined Authorities will retain 100% of business rates in 2019/20. Although possible it is unlikely that this will continue in 2020/21 and an estimated £3.9m pressure has been added to the MTFs
Anticipated savings not delivered	Possible	High	Ensure delivery plans are monitored and continue to assess on a regular basis. Ensure Budget Contingency Reserve sufficient to meet in-year issues.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Likely	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
Economic downturn impacts on commercial income	Possible	High	Portfolio has been diversified to manage some of this risk especially within the retail sector
Brexit risks	Likely	Medium	Continue to highlight the



			<p>demand pressures to central Government regarding Adult Social Care and Children's Services.</p> <p>No additional targets for income to be added to budget for 2019/20 other than rebasing.</p> <p>Review reserves to manage any short-term impact.</p> <p>Monitor any economic impact.</p>
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations
The additional income from Heritage may not be sustained	Possible	Medium	Continue to monitor income levels and impact on business plan

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.

## 16. Next Steps and Timetable for 2019/20 Budget Setting

The outline timetable is as follows:-

- MTFs with savings themes presented to Cabinet in October;
- Scrutiny arrangements in place for November and January
- An engagement process on key aspects of the strategy set out in this paper- focusing on how working together with partners and the proposed" core offer will take place in November and December. This will involve four community engagement sessions hosted by the Area Forums, as follows:
  - 26 November- hosted by Chew Valley Forum (6pm- the Library, Chew Valley School
  - 29 November- hosted by Somer Valley Forum (6pm- The Town Hall, Midsomer Norton)
  - 3 December- hosted by Keynsham Area Forum (6.30- The Community Space, Keynsham)
  - 10 December- jointly hosted by Bath City Forum, Cam Valley Forum, Bathavon North Forum and 3SG (6pm- Council Chamber, Guildhall)
- Cabinet and Council approve budget in February.

