

North Somerset Council

Report to the Executive

Date of Meeting: 21 October 2020

Subject of Report: MTFP & Revenue Budget Update

Town or Parish: All

Officer/Member Presenting: Cllr Ashley Cartman, Executive Member for Finance & Performance

Key Decision: No

Reason: Report is for information and noting

Recommendations

To:

- i. Note the updated information relating to the assumptions, risks and progress within the Medium Term Financial Planning (MTFP) process, as well as the next steps and timescales for finalising the MTFP for the period 2021 to 2024, and for setting the revenue budget for the 2021/22 financial year

1. Summary of Report

This report provides a further update with regards to assumptions which underpin the council's medium-term financial plan, covering the 3-year period to 2023/24 and to share details of the work that has been undertaken in recent months to bring forward a financial strategy which will enable the council to set a balanced budget for the 2021/22 financial year and work towards reducing budget gaps in subsequent years.

The MTFP describes the council's current and projected financial positions for both revenue and capital items and compares them to the anticipated resources we have available to us. It incorporates a range of financial issues and highlights the key risks and opportunities within our budget planning processes, one of which recognises the need to continue to invest and transform our services so that we engage with our customers and provide services in the most appropriate and efficient ways.

Whilst it is important that the council's limited resources continue to be allocated and aligned to the priorities identified within the Corporate Plan, the council recognises the need to review and reassess all aspects of its financial planning, particularly given the uncertainties and pressures which have arisen as a result of the Covid-19 pandemic, at both a local and a national level.

2. Policy

The MTFP is a core strategic document that supports the delivery of the council's Corporate Plan which outlines the key priorities for residents and businesses within our communities.

There is a legal requirement to produce a robust revenue budget for the 2021/22 financial year along with relevant council tax bandings and rates. These will be recommended for approval by Council in February 2021.

3. Details

3.1. Financial context

The existing MTFP approved by Council in February 2020, covers the 4-years to 2023/24 and was prepared using a range of information and assumptions available at that time. It reflected a balanced budget for 2020/21 although had a residual shortfall of £19m in later years, including **£9.189m in 2021/22**. This meant that further work would be required in the new financial year to review the underlying assumptions, and update for material movements, but more importantly to develop a new series of savings strategies and plans in order to balance the MTFP across the period.

Clearly these forecasts were made before the Covid-19 pandemic which has changed the financial outlook considerably, and also impacted on core parts of the council's existing base budgets in the current financial year, and so additional work has had to be undertaken over recent months to reassess and test the underlying assumptions before developing a new strategy to close the budget gap and move forwards with. Some of this additional work remains ongoing as it is largely driven by external factors however, the details within this report provide an overview and describe the latest position in respect of the council's strategic financial planning.

3.2. Key assumptions and areas of risk

The MTFP is a live document which brings together financial forecasts and impacts for all of the councils' many service areas and financial affairs, and so by its very nature it is complex and therefore does include inherent risks, as it is dependent upon a wide range of factors, assumption, data and judgement.

Officers within the finance team continue to work with the corporate leadership team, budget managers, contractors and key stakeholders to continually review and challenge data, forecasts and assumptions. Work is also ongoing to test the validity of some of these factors and assumptions through comparison with other councils and specialist groups which can help to frame or minimise risk in some areas. At this time key assumptions and areas of risk include the following:

3.2.1. Resource outlook - local and national

In the absence of a confirmed date for either the national Spending Review or the Local Government Finance Settlement, there remains uncertainty around the grant allocations that the council could receive in the future, most notably grant funding relating to adult social care, business rates, new homes bonus and the revenue support grant.

The council anticipates that some information may be forthcoming should a Spending Review be announced in November although, it is becoming more likely that this will be a one-year announcement, rather than the multi-year settlement which was promised, and is much needed in order to be able to plan for its finances appropriately.

There are also unknown factors linked to the ongoing and sustained impacts on council tax and business rate income streams in future years, largely brought about as a result of Covid-19, as well as the arrangements for funding 'in-year' losses across subsequent years.

Clearly the amount of 'resources' the council projects, frames the construct of the MTFP and eventual budget as it determines the overall financial envelope that the council has available to spend.

3.2.2. Wider economic impacts

The economic well-being of an area, or a country, has a significant and direct impact on the council's own budget, most notably through the collection of local taxation and the retainment of growth within the area however, that is not all.

The council currently budgets to receive over £60m of income from sales, fees and charges relating to services such as car parking, planning, licensing or nurseries as well as from external contributions from third parties and so if the national or local economies are not sustainable or growing, then elements of these income streams are at risk.

In addition, the councils' base also include income budgets for areas such as concessions, property and rental income and treasury related interest income from investing surplus cash-flows. Due to the current market conditions these income budgets are experiencing significant pressures and some may be unsustainable into future years.

3.2.3. Service demand

The current year's budget monitoring (which is being considered elsewhere on the agenda for this meeting) has identified service pressures in a number of key areas. These include placements for looked after children, support to disabled children and their families, placements for adults with special needs and home to school transport primarily in relation to transport for special educational needs and disabled children.

- Placements for children looked after
Although growth was allocated to the service in 2020/21, it was not sufficient to meet the demand on the service. The total number of children looked after plateaued at a high of around 235 – 245 during the most part of 2019/20. There has been a reduction recently but this is unlikely to be sustained as an increase in referrals is expected as young people return to school therefore it is anticipated that further growth will be required in order to ensure the budget meets the demand on the service in 2021/22.
- Support for Disabled Children

Pressures are also being experienced in relation to support to disabled children, there has been an increase in Direct Payments and an increase in complex support packages.

- Placements for adults with special needs
There has been an increase in cost of residential Exceptional Special Needs (ESN) placements, which seems to be a trend that began in October of last year. Initial discussions indicate that the ESN increases might relate to a reducing number of available placements therefore an increase in price.
- Home to Schools Transport – SEND
There is a significant financial pressure arising within the Home to School Transport service as a result of an increase in demand for SEND transport. In the current financial year there has been an increase of 98 SEND pupils requiring transport which is a 27% increase compare to the previous financial year. The exact requirements for some of these pupils are still to be confirmed since their placements are currently unknown but the pressures will continue to be monitored and factored into the MTFP.

Growth was anticipated for some of the above areas within the February 2020 MTFP however it is likely that the growth may not be sufficient to meet some of the rising demands.

We are continually reviewing our estimates regarding these material budget pressures as part of our monthly budget monitoring process and will ensure they are recognised within the MTFP to ensure a robust budget for 2021/22.

Whilst we will attempt to forecast the demand pressure for future years it should be recognised however that the further into the future we forecast, the less degree of certainty we will have in the estimates.

3.2.4. Ongoing Covid-19 impacts

There are a number of Covid-19 related expenditure pressures and income losses which could potentially be ongoing into next financial year, which are as yet not included within the latest MTFP forecasts.

Whilst we have gratefully received funding from Government for some of these pressures in the current financial year, there has not yet been any guidance regarding additional funding from Government for impact which may continue into future years.

The most notable areas where there is likely to be sustained impacts are support to adult social care providers, an increase in the number of children's referrals, home to school transport costs and continued losses of funding in income-generating services such as nurseries, leisure, parking, property rentals and planning.

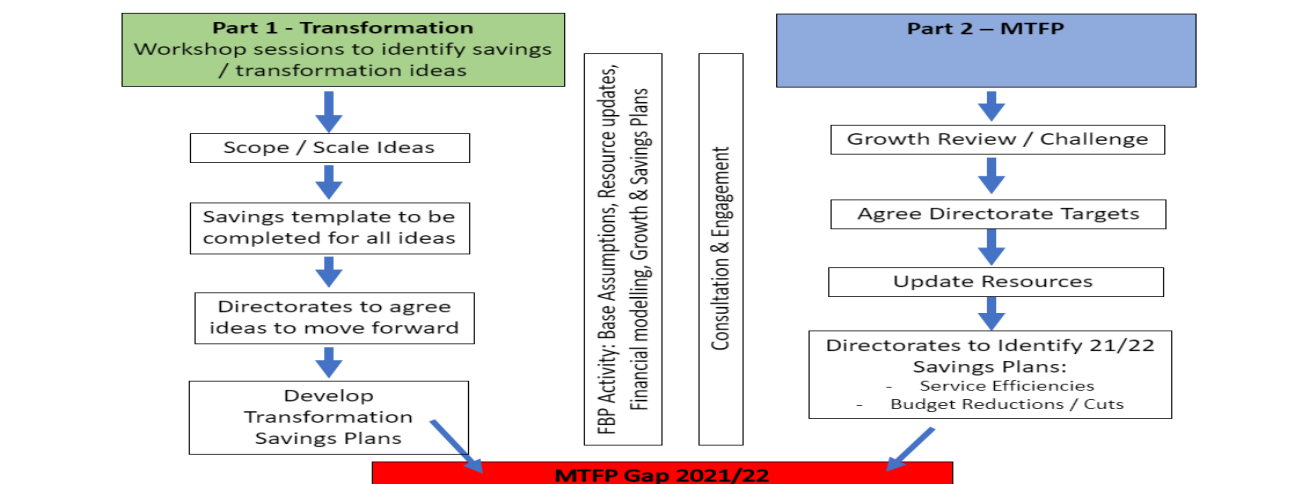
The Covid-19 related pressures continue to be monitored as part of our monthly budget monitoring processes for the current financial year and integrated into the MTFP should they issues progress beyond risks.

3.3. Financial strategy to close the gap

Previous MTFP reports provided an overview of the council's strategy to balance its finances so that it can continue to fund the ongoing increases in costs and demand it has seen and has forecast for many of its public facing services.

The graphic below depicts the dual approach being used by the corporate leadership team to close the budget gap and shows that we are seeking to incorporate and integrate transformation and innovation themes and ideas within budget planning processes, at the same time as adopting those traditional budget processes used by many councils across the country.

MTFP Process



3.3.1. Transformation programme update

It is anticipated that each directorate will establish its own transformation programme which will focus upon delivering specific service-related improvements and initiatives. The council will also develop a corporate and cross-cutting programme which is likely to impact on all services as it will look at ‘the ways in which we work’ (i.e. covering projects relating to both our asset base and our workforce), as well as enablers of change such as digital and ICT related projects. The corporate programme will also give focus to energy, climate change and addressing inequalities initiatives.

In recent weeks a series of transformation workshops have been delivered across the council in order to scope and develop ideas for inclusion within the transformation journey and programmes that the council will take over the next few years. All of the workshops have been well attended and discussions have been engaging and thought provoking with many ideas having been put forwards.

These ideas have grouped together and it can be seen that there are a number of themes emerging from the sessions, some of which are continuation of existing themes, whilst others are new ideas, or items which have been generated as a response to the new positive ways of working that have arisen as a result of the response to the Covid-19 pandemic.

The emerging transformation themes from the workshop discussions include:

- Increased use of Digital Technology – which could be used to enable, increase or enhance remote working, deliver service efficiencies, reduce the number of bespoke

software packages and simplify the council's ICT support requirements, introduce robotics and machine led technology into routine functions or services

- Review of Assets, including the creation of an overarching asset management strategy and delivery of office accommodation and development programmes – which will provide focus on the council's asset base including; which assets we retain, and why, how we manage and utilise residual assets, how these support effective service delivery, where we work, and also how we plan and build communities in the future
- Joint working with a range of stakeholders and partners such as Town and Parish Councils or the CCG - to focus, prioritise and deliver community-based services in the most efficient ways possible, and to work towards an integrated hospital discharge and other joint working
- Review of the customer services delivery model – incorporating challenges surrounding how, where and why we interact with customers to see if there are changes we could make to improve service delivery and also reduce costs, such as increasing the use of technology or reviewing the location of our asset base
- Climate Emergency - including both stand-alone projects linked to carbon efficiencies and reductions as well as benefits which are linked to other elements of the future programme, I.e. increase in digital technology and home working and redesigning customer and face-to-face activity may lead to changes in our need to travel, or how we travel, similarly the numbers, locations and usages of our assets and buildings may lead to reductions in our energy usage and carbon footprint
- Care Package Reviews – developing a programme of reviews of care packages to ensure that they continue to meet assessed customer need but which also support the current Maximising Independence and Wellbeing Transformation Programme
- Technology Enabled Care – being the development of a business case to indicate the savings that might arise from the deployment of technology to maximise independence and reduce the extent of formal care packages
- Adults Accommodation Shift - this includes developing alternative, more cost effective and independence maximising solutions to residential care, including Shared Lives, Extra Care and Supported Living
- Redesign of Early Intervention – working with the voluntary and community sector to enhance the support available, including redesign of day care services and maximising the impact of Technology Enhanced Care and the Wellness Service
- Income Generation – across all service areas including the continuation of the reviews of financial assessment and maximising income from the Better Care Fund and from the Clinical Commissioning Group in relation to Continuing Health Care, joint funded packages and other joint working, as well as looking at trading opportunities within both existing and new areas such as support services

The ideas and discussions arising from these workshops are currently being developed into tangible proposals and will be brought forward over the next few weeks although, it should be noted that some of these areas will not bring immediate financial benefits, and so are likely to be built into years 2 and 3 of the council's MTFP timeline.

3.3.2. MTFP budget process

Work has been ongoing to refresh and reassess all the component parts of the council's medium-term financial plan in light of updated information. It is important to recognise that this review will need to include all of the existing items within the plan, as well as bring in any new and emerging issues that have arisen over the past 6 months.

In order to address the gap over the next few months prior to the formal budget setting arrangement, it is proposed that the MTFP budget process is broken down into the following stages:

• Review resources

As noted above the majority of the councils' resources are generated locally through both council tax and business rate income, with a small proportion coming from the government in the form of grant allocations.

Covid-19 has significantly impacted both council tax and business rates income meaning the forecasts and underlying assumptions will need to be reviewed and reassessed and the values will be updated within the MTFP prior to the next report to the Executive. At this point it is difficult to predict how long the impacts on individuals and businesses will continue for, or if these will fall into future financial years. If that is the case, then the current financial gap will grow from current levels.

With regards to external sources of funding, the council will continue to lobby with government departments to ensure that funding information is received as possible. In the meantime the current assumptions will be reviewed and compared to prior year allocations as well as reviewed against neighbouring authority's assumptions and the south west finance group.

• Challenge growth

Each year the council aims to create a robust budget which is based upon its assessed need, forecasts relating to rising cost factors and demand levels are calculated, and associated budgets are then allocated to services. In order to do this effectively 'growth' or budget increases, are built into the MTFP.

In the February 2020 MTFP there were assumptions included for inflation and demand increases. It is proposed that the detailed assumptions and calculations supporting these growth items will be reviewed and tested by each of the directorate leadership teams and challenged by the corporate leadership team to ensure growth sums are still relevant, are being held at the appropriate level and have been mitigated where possible.

• Savings plans - existing and new

In addition to growth sums, the February 2020 MTFP also included a series of savings proposals for future years. It has been agreed to review the deliverability of each of these existing proposals to ensure that they can still be achieved or if they have been impacted by events and changes over the past 6 months.

To focus attention on closing the gap for the 2021/22 financial year the corporate leadership have had discussions about the generation of **new** savings plans and ideas, which can be brought into the MTFP over the coming months. In order to achieve an overall quantum level of savings, indicative directorate 'target' ranges have been agreed which are based upon proportionate budget shares, so that it may be possible to evaluate different savings plans and options should the councils budget gap grow or shrink, depending upon the outcome of various other assumptions and changes within the MTFP forecasts.

Directorate leadership teams are therefore working with support of Finance Business Partners to identify a list of potential savings for 2021/22 to address the budget gap. The initial list of savings will be discussed at CLT during October and with a view to be shared more widely in December when they have been sufficiently developed.

3.4. Proposed timetable and next steps

Work on closing the budget gap across the period of the MTFP is already underway with a range of ideas and proposals being formulated. The proposals will be developed over the coming weeks in order for them to be incorporated within the next Executive report in December.

The key stages and proposed timetable for the 2021/22 budget are:

- Report to Executive, December 2020 – updated financial summary incorporating initial savings proposals to ensure delivery of a 2021/22 balanced budget
- December 2020 – Consultation, engagement and scrutiny
- Report to Council, January 2021 – update on resources impact of the Spending Review, provisional local government finance settlement, Business rate forecast (NNDR1 return), and council tax base for 2021/22
- January 2021 – Further consultation, engagement and scrutiny
- Report to Executive, February 2021 – recommend balanced revenue and capital budgets for 2021/22 to Council; detailed Equality Impact Assessments; consideration of alternative budgets
- Report to Council, February 2021 – Approval of 2021/22 revenue and capital budgets and council tax levels and bandings

4. Consultation

The government, through its legislative framework, clearly expects that local authorities will be able to demonstrate that they have in place mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them.

There are many aspects of service delivery which impact on our residents, customers and other stakeholders and members of the public, and so we recognise that it is our responsibility to ensure that any changes we make to them through the budget, need to be considered and consulted upon. Failure to do so adequately could result in aspects of the budget being subject to legal challenge.

The council is currently developing a Communications and Engagement Plan and an initial draft has been considered by the corporate leadership team. The Plan will be developed iteratively so that it can consider changes and reflections as the MTFP is progressed through its various stages.

Key stakeholders have been identified as residents, service users, town and parish councils, voluntary organisations, community groups, elected members and staff, and targeted messages and activities will be applied to each stakeholder group, using an appropriate and relevant communication channel to enable optimum engagement and feedback. At this stage communication channels include things such as; social media, council website, NS Life, citizens panel, e-Consult, equality groups, focus groups, forums, Digests, new-letters, Live events, and scrutiny panels.

Whilst the council is fully committed to ensuring that residents, business and other stakeholders from across the district are included within its financial plans, there remain concerns about the amount of information still awaited from the government and the impact this will have on future modelling or specific savings plans. Clearly the proposed timeline will present challenges with regards to the level of effective communication that the council may have on its specific budget proposals although wider comms and engagement can, and will, still take place.

Amongst other things it is anticipated that the engagement plan will seek to;

- Promote understanding of the council's financial challenges and potential choices
- Raise awareness of Covid-19 impacts, challenges and opportunities
- Understand resident expectations
- Consult on issues which affect specific stakeholders
- Gather ideas
- Explore opportunities for collaboration
- Ensure early engagement about potential future changes

It is anticipated that the detailed plan will be included within the following report to the Executive.

5. Financial Implications

Financial implications are contained throughout the report.

6. Legal Powers and Implications

The Local Government Act 1972 lays down the fundamental principle by providing that every local authority shall make arrangements for the proper administration of their financial affairs, although further details and requirements are contained within related legislation. The setting of the council's budget for the forthcoming year is an integral part of the financial administration process.

7. Climate Change and Environmental Implications

No specific implications to highlight at this stage, although climate and environmental related implications continue to be at the forefront of our thinking when considering underlying service policies and priorities, as well as investment and savings options. Energy and climate change issues have been identified as a key theme within the council's Transformation Programme and workshops have been held to shape and formulate the key components required to achieve the required objectives. The proposals will feature more prominently on our future MTFP development and communications.

8. Risk Management

In setting the revenue and capital budgets, the council must take into account the known key financial risks that may affect its plans and these will either be explicitly provided for within the base budget or be offset and held against the unallocated contingency budget or the council's general fund working balance.

However there are now many more uncertainties and unknown factors within our financial planning which include the impacts and legacies arising from the Covid-19 pandemic, on both our services and resource levels, although clearly the pandemic has also significantly impacted on the wider economic conditions as well.

In addition to these there remain inherent uncertainties within the local government finance sector, particularly with regards to proposed arrangements surrounding the Spending Review and its timeframe, and also changes to business rate retention, social care funding levels and a national fair funding review.

The council recognises that these risks, together with the timeframes surrounding funding settlements, does attract a high degree of risk in terms of financial planning, and that these risks spread from the very short-term through to the end of the council's longer-term planning period. However, it is important to recognise that the Corporate Plan and MTFP are vital tools to help align effort across the organisation to ensure that services are all pulling in the same direction, as is continued engagement and dialogue with key stakeholders.

Officers will continue to test the impact of varying key assumptions in the medium-term financial strategy to assess the sensitivity of the indicative budget figures. This informs decisions about the level of working balances needed to provide assurance as to the robustness of the budget estimates.

An MTFP risk register is continually updated which reflects the most significant areas of the council's financial planning, although at this time some of the most significant risks are shown below;

- Uncertainty about levels of funding from central government as a result of the Spending Review 2020

- Uncertainty about future reforms of local government finance and the impact this may have on the council's resources
- Uncertainty about the long-term funding solution for adult social care
- Ongoing impact of the Covid-19 pandemic on income levels, both within the revenue budget, and also the Collection Fund
- Ongoing impact of the Covid-19 pandemic on expenditure forecasts, particularly in areas such as provider support and demand levels
- Potential increases in demand in areas which are difficult to control, including adult and children's social care and home to school transport (especially for children with SEND)
- Financial sustainability of contractors / providers, particularly adult social care providers
- Ability to facilitate economic and housing growth to increase income and generate wider economic benefits
- Ongoing reductions in economic well-being across the district as a result of Covid and Brexit.
- Ability and capacity required to deliver change through transformation and innovation
- Impact of major capital projects

9. Equality Implications

In considering its vision, ambitions and financial planning the council should be mindful of its Public Sector Equalities Duties to have due regard to the need to:

- eliminate unlawful discrimination
- advance equality of opportunity; and
- Encourage good relations between groups.

As per previous years, we will undertake thorough Equality Impact Assessments, (EIA), for all significant budget savings plans which will be incorporated within the relevant budget papers throughout the MTFP process.

10. Corporate Implications

The Corporate Plan and MTFP are vital tools to help align effort across the organisation and ensure that services are all pulling in the same direction. With continuing financial pressures and demands for services, it is essential that the councils' limited resources continue to be prioritised and allocated in line with the identified priorities.

11. Options Considered

Options and considerations within the council's MTFP processes are described throughout the report.

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Appendices:

None [\[Click here to enter Appendices\]](#)

Background Papers:

MFTP & 2020/21 Budget Setting Reports (Executive & Council – Feb 2020 to Sept 2020)
Budget Monitoring Reports (Executive - June-October 2020)