North Somerset Council

Report to the Executive

Date of Meeting: 20 October 2021

Subject of Report: MTFP & Revenue Budget Update

Town or Parish: All

Officer/Member Presenting: Councillor Ashley Cartman, Executive Member for Corporate Services

Key Decision: No
Reason: For information and noting

Recommendations

The Executive is asked to note;

1. The updated range of revenue budget projections and risks within the Medium-Term Financial Plan (MTFP) as detailed within the report;

2. The process, next steps and timescales for finalising the MTFP for the period 2022 to 2025, and also for setting the revenue budget for the 2022/23 financial year;

3. The update provided in respect of the Government's proposals for Health and Social Care.

1. Summary of Report

This report provides an update with regards to assumptions which underpin the council's medium-term financial plan, covering the 3-year period to 2024/25, specifically in relation to resources and spending pressures and the associated risks currently being considered and managed with the financial modelling process.

The report also provides an overview of the recent Government announcements in respect of proposed changes to Health and Social Care and the impacts that these may have on the council's finances and operational arrangements as well as residents and social care providers.

2. Policy

The council has a well-established and embedded process to continually review and assess its financial performance and position, both in terms of the current financial year as well as across the medium-term.

The council recognises the importance of aligning limited resources and allocating them to the priorities identified within the Corporate Plan, which means that it continually reviews all aspects of financial planning and considers new risks, issues and challenges as they emerge. This is essential given the uncertainties, pressures and impacts which have arisen as a result of the Covid-19 pandemic.

There is a legal requirement to prepare and approve a robust revenue budget for the 2022/23 financial year, along with relevant council tax bandings and rates. Ultimately the MTFP will work towards delivering these and will culminate in a report being presented to Council in February 2022.

3. Details

The council follows a traditional incremental approach to its annual budgeting cycle whereby the approved revenue base budget is used as a starting point to build from and various factors and assumptions are considered and incorporated where they are deemed material in nature and aligned to delivery of statutory responsibilities or Corporate Plan priorities. A similar approach is adopted in respect of creating funding forecasts.

The council's financial plans were last formally approved in February 2021 although iterative updates have been provided to the Executive at meetings since then, this report provides the opportunity to share further details in respect of changes to budget assumptions and the associated impacts these may have on the financial modelling.

3.1. Update on resources

The council funds its net revenue budget and spending plans each year from 'resources' which are a combination of grants from central government and locally generated resources, levied on both residents and businesses through council tax and business rate demands.

Income from council tax and businesses is brought into the revenue budget each year by estimating a fixed sum in advance, known as a 'precept', which is drawn against the collection fund.

The accounting arrangements for the collection fund are different to other parts of the council's budget and mean that the council will receive its fixed annual precepted sum each year and should there be any movements compared to this budgeted position at the end of the year, then any final surplus or deficit positions would be transferred into a reserve and reflected within the budgets for subsequent years.

As a result, the council's financial planning needs to reflect both the assumed annual income sums, as well as the one-off surplus or deficit balances in respect of prior years.

3.1.1. Council tax, annual income – council tax forecasts are based on a complex series of information and assumptions relating to timing and delivery of new housing growth, discounts and exemptions as well as collection rates of the income sums due.

Each of these assumptions is reviewed on a monthly basis as part of the council's budget monitoring processes to understand the impact they may have on the forecast for the end of the current financial year, as well as assessing any sustained impacts for future years, which can be fed into the council's MTFP modelling.

The latest update for council tax indicates that the council's annual income forecasts for future years, i.e. from April 2022, will be approximately £500k higher than previously calculated, largely related to more housing growth and lower levels of council tax discounts. It should be noted that this change is relatively minor compared to the base sum, which is in excess of £120m.

3.1.2. Business rates, annual income - a similar approach is adopted for business rate income – the latest forecasts show that the council's business rate annual income will be slightly lower from 2022/23 than previously planned. The majority of this change relates to a re-assessment of the baseline position for existing businesses, as well as lower growth planned for new or expanding businesses, some of which will have been delayed as a result of Covid.

3.1.3. Collection fund surplus - in addition to the ongoing annual impacts for council tax and business rates in future years, the MTFP has also been updated to reflect the final position in respect of the 2020/21 financial year for these areas. As a result, a one-off surplus of £2m has been reflected within the modelling for the 2022/23 financial year, £500k of which relates to council tax and £1.5m for business rates.

The most significant reason for this movement relates to a change in approach in how the council assessed the level of business rate income that it was due to receive for the year, after taking into consideration the issue of 'appeals' from businesses. Councils are required to reflect a provision within their accounts for any rating appeals that have, or may be lodged from businesses, in respect of their ongoing liabilities. Given the Covid related economic uncertainties being seen at that time, there was a concern across the sector that this would lead to an increase in the volume of appeals lodged by businesses as it could be viewed that they would have experienced a material change in their circumstances.

Appeals obviously reduce the amount of income that councils can expect to collect however, at the end of the financial year the government issued new guidance in respect of appeals which could be potentially be lodged by businesses for a '*material change in circumstances*' or MCC's brought about as a result of Covid. The guidance ruled that MCC's were not allowable, meaning that councils were no longer required to reflect a provision within their accounts or reduce their annual income. This increased the council's final year-end position compared to the original forecast.

3.1.4. Social care funding

Councils with responsibility for social care services have experienced significant increases in costs over recent years as a result of both rising demand and inflationary cost pressures. This has led to the government providing additional funding at a national level to help maintain and support these essential services. It can be seen that some of the additional funding has been given to the council directly by the government, by way of a grant, whilst other funding has been generated locally because the government has allowed the council to levy a 'social care precept' on top of its annual council tax rise to residents.

Decisions in respect of funding for the sector and allocations to individual councils are taken at a national level by central government and reported through the local government finance settlement. For the past two years these funding decisions have been shared on an annual basis, which means that it has been difficult for the council to build an effective medium-term financial plan for all of its services, as it has not been in control of all of the information needed.

Once received the local government finance settlement will share details of whether the government will provide any extra resources to councils, and if so, how much of this additional funding will be given through grant income or how much councils could choose to levy locally themselves, through the social care precept.

Previous MTFP reports advised that the council's financial modelling assumptions have been updated to show that prior year grant funding allocated for adult social care services will continue to be received in future years, and in addition to that, the council would expect to receive a further increase in funding for future years to recognise the sustained increases in social care service costs. The modelling assumes that all of this income will be received through a grant.

Whilst the council's financial modelling is perceived to be fairly robust in terms of the value of additional funding that may be provided for social care needs in future years, it is important to recognise that it is now unlikely that all of this funding will be provided by way of a government grant as currently assumed.

Following recent announcements made by the Prime Minister in respect of the changes for Health and Social Care, it is possible that the Spending Review may indicate that local government should make a contribution towards raising the additional resources needed to fund social care pressures themselves, which would be delivered by allowing councils to approve a local social care precept for their areas.

In practical terms this would mean that the council would need to increase council tax levels beyond the baseline of 1.99%, which is the council tax increase currently included within the MTFP financial modelling.

Whilst it may be the intention and policy of central government to offer councils the option of approving a social care precept, all decisions relating to proposed levels of council tax would be for North Somerset's own elected Members to make when it approves the budget and council tax charges in February 2022.

Should a precept be made available and not progressed, then the council would be required to re-visit its current financial plans and underlying assumptions to ensure that a balanced budget could still be achieved.

3.2. Update on service pressures and priorities

Assumptions have made to forecast future levels of expenditure because whilst the council can control some of its costs by managing its budget effectively, other elements are dependent upon national and economic drivers such as inflation, interest rates, pay awards and pension charges. The council is also required to consider and provide for the sustained increases in demand levels for some of its services, as has been the case in recent years.

The current year's budget monitoring (which is being considered elsewhere on the agenda for this meeting) is a good source of information to identify existing financial pressures being experienced by services, although clearly there will also be other new and emerging issues to consider. The monitoring report shows that material issues in 2021/22 which may continue into the future include; 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, as well as continued shortfalls in income budgets. Although in addition, there are a number of smaller impacts which when considered collectively, do need to be recognised and assessed within the financial planning framework.

The council also recognises that it has a degree of choice or flexibility in how it chooses to fund investment in priority areas and so has reflected an initial sum within the council's financial planning, with further details to be shared later in the process.

	Budget pressures		
	2022/23	2023/24	2024/25
	£000	£000	£000
Inflation on pay and pensions	**1,523**	1,550	1,577
Inflation on contracts and energy	**956**	910	966
Supporting capital programme	**950**	0	0
Adult social care services	**6,081**	4,805	4,805
Childrens services	**1,045**	471	488
Corporate services	**638**	247	245
Place	**1,484**	2,333	750
Public Health & Reg Services	**45**	0	0
Corporate Priorities	**500**	0	0
TOTALS	**13,222**	**10,316**	**8,831**

The latest MTFP modelling includes the following provision for known and emerging budget pressures. It should be noted that each of these items will continue to be reviewed throughout the planning process to ensure that they are still required and held at appropriate values.

At the time of writing the spending pressures do not reflect any financial impacts which may arise from the Prime Ministers' Health and Social Care announcements, although these will be considered and changes incorporated into the next update where appropriate. Clearly any changes in future levels of spending will impact on the budget gap, which will in turn impact of actions being required to close the budget gap and balance the budget.

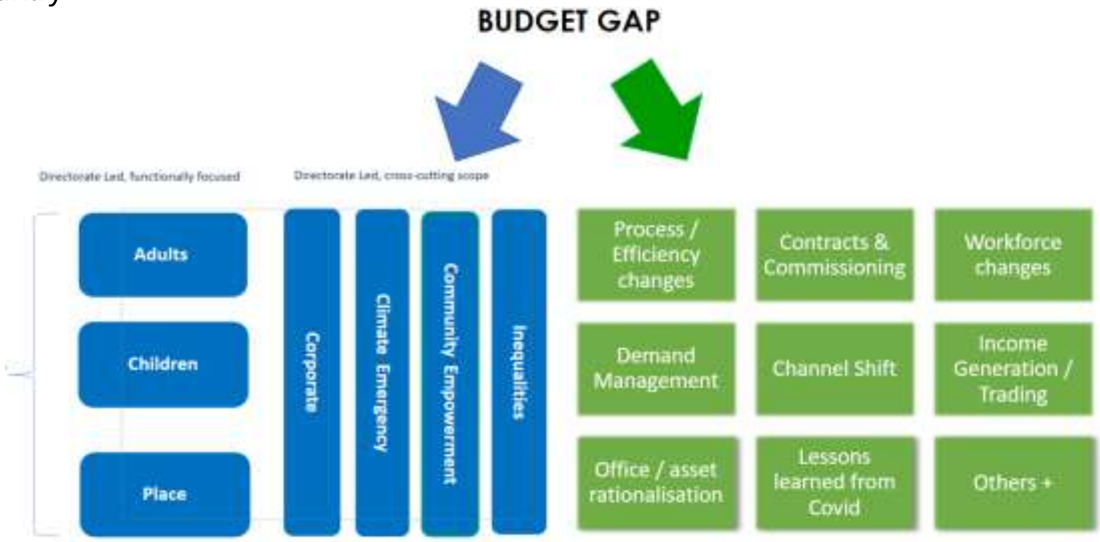
3.3. Update on the funding gap and actions being taken to close the gap

As described above, the council has updated its financial modelling to reflect the latest known information in respect of its resource forecasts as well as its spending pressures. The corporate leadership has taken care to assess and challenge all of the anticipated cost and demand increases which have been proposed to date to ensure that the budget is prepared in a robust and sustainable way, but without increasing the budget gap to unachievable levels, as this would mean that the council would be required to identify greater reductions in other areas of the budget to close the gap.

As would be expected at this point in the financial planning process, the council's latest budget gap has reduced from previous levels and is currently projected to be in the region **of £3.8m**, and whilst there may be further changes made to address current or emerging risks over the Autumn period, work has now started on developing savings proposals to enable delivery of a draft balanced budget later in the year.

The leadership team are keen to ensure that efforts will be focused on retaining and protecting front-line services wherever possible, although this approach clearly becomes more challenging as time goes on as the opportunities for further savings reduce. Budget reductions have previously included driving efficiencies in core service costs as well as improving commissioning arrangements and achieving better value from our contracts however, the council recognises that this strategy is no longer sustainable in isolation, and so is supportive of embedded transformational and innovative approaches being taken by directors.

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 savings proposals used by many councils across the country.



To focus attention on closing the budget gap for next year the corporate leadership have had discussions about the overall quantum level of savings required and as a result indicative directorate 'target' ranges have been agreed for each of the directorates to work towards. These targets are based upon the average proportionate budget shares across the council although it is recognised that these could, or should, be flexed in the future should the budget gap change.

Directorate leadership teams are therefore working with the support of Finance Business Partners to identify a list of potential savings for 2022/23 and beyond in order to address the budget gap. All draft savings proposals will be reviewed and assessed in detail before they are incorporated into the council's financial modelling, taking great care to consider a range of impacts and issues, such as equalities, customers, climate change, deliverability. Further details will be shared more widely in future reports when the proposals have been sufficiently scoped and developed.

3.4. Risks within the MTFP

3.4.1 Revenue budget risks

In setting the revenue and capital spending budgets, the council must take into account the key financial risks that may affect its future service delivery plans noting that if these materialise then they would either need to be explicitly provided for within the future base budget as a growth item, be offset and held against the unallocated contingency budget or in extreme circumstances, be funded from the council's general fund working balance.

An MTFP risk register is held and regularly updated to ensure that the most significant risks are captured and reviewed, some of which may be linked to current spending plans or service delivery, although others may relate to potential future actions, such as changes in regulatory frameworks or requirements, increases in demand, responses to external factors and changes in economic circumstances or market conditions.

The council scores each of the risks recorded within the register as this helps to understand and prioritise the most significant areas of risk which may be of concern and also focuses attention on any actions which may need to be taken to mitigate the risk. The scoring assessment includes estimating the indicative financial values for each risk item and categorising these into 5 bandings, with 5 being the highest value at over £5m;

- 1 Up to £500k
- 2 Between £500k and £1m
- 3 Between £1m and £2m
- 4 Between £2m and £5m
- 5 Over £5m

Risks are also allocated a score based upon the probability or likelihood of the risk materialising, with 5 being the most likely risk to occur;

- 1 Up to 10%
- 2 Between 10% and 25%
- 3 Between 25% and 50%
- 4 Between 50% and 75%
- 5 Over 75%

At this time the MTFP risks with the highest combined scores are shown below;

- Further demand for adult social care services, placements for disabled children and home to school transport services, beyond the levels currently provided within the MTFP,
- Further inflationary increases for areas such as the national living wage, pay award, inflation on energy prices and contract indices – this would impact on all directorates and would materialise in staffing costs and contractor payments,
- Requirement to re-base income budgets in areas which are reporting sustained reductions, e.g. car parking, campus, HB overpayments and summons costs,
- Impact of the Health and Social Care announcements, covering both the Levy and the proposed changes to operational service delivery

The following section identifies new and emerging risks, which currently do not feature within the MTFP spending pressures, although have a higher chance of occurring and so will continue to be monitored and re-assessed before the next MTFP update is shared;

- Increase in waste disposal costs arising from higher volumes,
- Increase in insurance costs arising from changes in market prices and claims experience,
- Loss of income for land charges arising from changes in regulations,
- Impacts arising from HGV driver shortages and potential reductions in the value of recyclates

Other risks which are potentially material in terms of scale, although the financial impact on the council's own resources are not yet known or fully quantified include the following;

- Impact of the Social Care Funding Reforms, i.e. changes in the capital limits, cap on care costs, self-funders, fair price for care and training and support for social care workers – the council's additional costs could potentially be over £10m by the time all of the changes have been implemented, although the government have stated that they will distribute additional resource allocations. As little information has been shared it is not possible to assess whether the funding will be sufficient to cover all of the anticipated costs at this time.

- Dedicated schools deficit balance – this is currently forecast to be over £11m by the end of the financial year although accounting regulations require the deficit to be held in a reserve on the balance sheet and a temporary statutory over-ride (for 3 years) prevents the council from using its own resources to fund it. The council has submitted a deficit recovery plan to the Department for Education which will aim to reduce the deficit from growing further; and is currently awaiting information with regards to the governments plans at the end of the over-ride period – at this time it is anticipated that the period will be extended until a longer-term national solution is identified.

3.4.2 Resource related risks

In addition to the risks associated with the operational revenue budget. 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 other changes to business rate retention, national re-set of business rate growth levels and the national fair funding review which have been deferred in recent years. The risk register scoring for these areas all reach some of the highest levels as they are both material in nature and also feature a high probability of occurring.

The council recognises that these risks, together with the timeframes surrounding the announcement of funding settlements and legislative changes, 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. Such risks are also influenced by strategic changes within the government policy and key personnel, and so they remain uncertain and out of the council's control at this point, although it is hoped that further information will be known in the Autumn.

Other key risks noted within the council's resource risk register include;

- Delivery of new housing and business rate growth,
- Potential reductions within the business rate baseline following removal of business rate relief to sectors impacted by Covid-19,
- Reductions in the collection rate for council tax and business rate income,
- Increase in the amount of council tax discounts and benefits

3.5. Review of Health and Social Care proposals

Members will be aware that, on 7 September 2021, the Prime Minister set out plans to invest £36 million in the health and social care sectors with the aim of addressing the Covid backlogs, reforming adult social care, and bringing the health and social care system closer together on a longer-term, sustainable footing.

Funding to support the NHS recovery and the reform of Social Care Funding investment will be raised from a Health and Social Care Levy and this was subsequently passed through Parliament.

The full details of the proposals for the spending of the Levy are included in the following document: https://www.gov.uk/government/publications/build-back-better-our-plan-for-health-and-social-care

3.5.1 The Levy

The Levy is equivalent to a 1.25% increase in employer, employee and self-employed National Insurance Contributions and will be introduced from April 2022. It is estimated that it will make c. £12bn per annum available to the Department of Health and Social Care from 2022/23. Most of this funding in the first three years will go to the NHS, although it is reported that it will be phased more towards social care in later years.

The announcement also made it clear that the new funding was not intended to support existing social care pressures, demographic and demand growth rises or cost inflation; instead, these are to be funded through council tax, the adult social care precept or other “long term efficiencies”. That being said, it is anticipated that the Spending Review will see some more real terms growth in social care funding than in previous years.

When the new money for social care generated from the Levy is received, it is anticipated that it will fund reduced income levels from clients who currently contribute towards the cost of their care and also paying a “fair rate for care” to providers. The new money provides little in terms of increasing capacity, quality or improving recruitment and retention. However, there are more details to follow in relation to workforce investment, housing solutions and support for unpaid carers. The report indicates that a White Paper will follow later this year.

3.5.2 Social Care Reforms

In terms of the social care charging reforms, the main elements proposed within the announcement are listed below; these will apply from **October 2023**:

- A **cap on care costs** such that no-one will have to pay more than £86,000 for personal care costs during their lifetime (excluding “daily living costs”). Once the £86,000 cap is reached, local authorities will pay for all eligible personal care costs. No-one will need to make a contribution from their income towards these care costs. People may choose to “top up” their care costs by paying the difference towards a more expensive service, but this will not count towards the cap.

- A change in the **capital limits**, with the implications as follows (all subject to the cap above):
  - If a person’s **total assets are over £100,000**, full fees must be paid

  - If a person’s **total assets are between £20,000 and £100,000**, the local authority is likely to fund some of their care. People will be expected to contribute towards the cost of their care from their income, but if that is not sufficient, they will contribute no more than 20 per cent of their chargeable assets per year. If by contributing towards care costs, the value of a person’s remaining assets falls below £20,000, then they would continue to pay a contribution from their income but nothing further from their assets.

  - If a person’s **total assets are less than £20,000**, they will not have to pay anything for their care from their assets. However, people may still need to make a contribution towards their care costs from their income.

- To allow people receiving means-tested support to keep more of their own income, the Government will unfreeze the Minimum Income Guarantee (MIG) for those receiving care in their own homes and Personal Expenses Allowance (PEA) for care home residents, so that from April 2022 they will both rise in line with inflation.

- Self-funders will be able to ask their Local Authority to arrange their care for them so that they can find better value care.

3.5.3 Financial considerations

There are a number of financial issues and risks that arise from the announcement, which will need to be considered and integrated within the council's financial planning over the next few months. The principal issues are as follows:

- The council will need to increase the staffing budgets for the staff it directly employs to recognise the increase in employer NI contributions it will be required to pay from April 2022, although it is anticipated that this will be offset by increased funding from Government. The estimated cost is c. £450 per annum although further work will be undertaken to quantify this sum before budgets are finalised.

- The council will need to consider the impacts on its contracted services of increased employer NI contributions that they will also be required to pay; although it is not yet clear whether the Government intends to compensate local authorities for these increased costs and so clarification is being sought.

- The council may need to consider the impact on low paid staff of the increased employee contributions they will be required to pay, this could apply to both internal and external staff, particularly in areas where it is difficult to recruit and is impacting on service delivery.

- It now appears clear that the Government intends that an adult social care precept (levied as an additional charge on council tax levels) will be a recognised, accepted and ongoing part of the funding towards adult social care cost increases, both in the short and medium term, although the full details are not yet known.

- The extent of the costs (and lost income) to the council of the social care reforms from October 2023 are currently unknown but will be in the £millions. The mechanism for distributing funding to local authorities has yet to be developed, but there are clear risks that the funding will not be sufficiently developed to ensure that all costs are covered.

- Significant time, resources and systems will be needed to plan, prepare, communicate and deliver the changes to the way in which social care service users (including self-funders) will need to be financially assessed and to monitor their spend against their "care cap".

These considerations will continue to be reviewed and incorporated within the council's financial processes, either directly within updated resource and spending levels, or held as risks within the risk register. Further information will be shared in future reports.

3.6. Ongoing Covid-19 impacts

There are a small 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 continued ring-fenced funding from Government for some of these pressures in the current financial year (for example; extending Sales, Fees and Charges income compensation scheme to June 2021, the continuation of the adult social care infection control funding and ongoing support to leisure providers), there has not yet been any guidance regarding funding or support measures from government for any impacts which may continue into future years.

Covid-19 related pressures continue to be monitored as part of our monthly budget monitoring processes for the current financial year and so will be considered within the MTFP processes should the issues progress beyond risks.

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 fully committed to ensuring that residents, business and other stakeholders from across the district are included within its MTFP planning and an engagement plan was presented within the previous report. Officers are currently preparing to deliver the first stages of the plan which is likely to include both targeted engagement with the citizens panel and town and parish councils, as well as broader engagement with residents through e-Consult, North Somerset Life articles and video messages shared over social media. Public meetings across the area have also been considered although if these were to be progressed they would need to meet the appropriate government guidelines in place at the time.

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 impacts to note at this stage, although climate and environmental related implications will be at the forefront of our thinking when considering underlying service policies, priorities and strategies associated with the revenue budget, as well as through formulating investment plans and determining options to make reductions in energy costs and climate initiatives.

8. Risk Management

Risks associated within the MTFP planning process are described in detail in the sections above and officers will continue to test the impact of varying assumptions within the medium-term financial planning process to assess the sensitivity of the indicative budget figures and compare these to evidenced based facts and information wherever possible, as this informs decisions about spending plans, savings proposals and ultimately the level of working balances needed to provide assurance as to the robustness of the budget estimates.

The council recognises that in addition to the risks documented within its register, there are now many more uncertainties and unknown factors within the financial planning which include the associated impacts and legacies arising from the Covid-19 pandemic, for both service delivery and resource levels, although at times it is difficult to establish a definitive link and cause.

9. Equality Implications

In considering its vision, ambitions and financial planning the council is 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

Ensuring value for money and protecting public funds continue to be core considerations by all service managers across the council who actively contribute in the councils financial planning processes. As a result, the council will consider a range of options throughout this period it is aware of the importance of managing its financial position effectively to ensure that it can continue to provide the range of services to residents and businesses within communities, some of whom are extremely vulnerable and most in need of support.

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Appendices:
None

Background Papers:
MTFP & Budget Setting Reports (Executive & Council, February 2021 & September 2021)
Budget Monitoring Reports (Executive, July-October 2021)