

North Somerset Council

Report to the Executive

Date of Meeting: 7 September 2022

Subject of Report: Medium Term Financial Plan 2023-2027

Town or Parish: All

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

Key Decision: YES

Reason:

Financial implications within the report are in excess of £500,000 and impact on all wards and communities within North Somerset

Recommendations

The Executive is asked to note;

- i. The updated range of budget projections within the Medium Term Financial Plan (MTFP) as detailed within the report,
- ii. The process, next steps and timescales for finalising the MTFP for the period 2023 to 2027, and also for setting the revenue budget for the 2023/24 financial year.

1. Summary of Report

This report provides an update with regards to the assumptions which underpin the council's medium term financial plan, covering a new 4-year period to 2026/27, which was last considered by the Executive in February 2022. At that time the council had a budget gap of **£18m** across the 2-year period to 2024, with approximately **£9m** short-fall in each of those years.

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 latest financial modelling, which has been extended to cover a 4-year horizon, shows that the council's financial position has deteriorated over recent months as the budget gap has increased to over **£41m**, which a short-fall of **£17m in 2023/24**.

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 worsening economic backdrop and specifically the inflationary impacts driving the cost of living crisis, which is affecting many individuals, businesses and public sector bodies alike.

There is a legal requirement to prepare and approve a robust revenue budget for the 2023/24 financial year, along with relevant council tax bandings and rates. Ultimately the MTFP will work towards delivering these outcomes and will culminate in a report being presented to Council in February 2023.

2. Policy

The council has an annual net revenue budget of £185m for the 2022/23 financial year, which is supported by a rolling MTFP process. It also has a capital investment programme for the period 2022-2027 which totals £339m, which is based on the needs and ambitions described within the Capital Strategy.

The council's MTFP supports the on-going provision of services for the people of North Somerset, within the context of the priorities for the area, as set out within the approved Corporate Plan. It identifies the likely costs and pressures that the council will face and matches these against the anticipated income and resource allocations over the period. The MTFP integrates a range of financial strategies and highlights the key risks inherent within our budget planning processes.

3. Details

3.1. Reminder of the MTFP process and February 2022 position

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 integration of the council's in-year budget monitoring processes with medium term financial planning mean that information is consistently shared and reflected across both platforms reducing the risks that can feature if such reports and workstreams are prepared in isolation of each other. Therefore, the budget monitoring report considered elsewhere on the agenda for this meeting, is important in understanding some of the emerging issues within this report.

The council's financial plans were last approved in February 2022 and the table below provides a summary of the financial position at that time.

MTFP FINANCIAL SUMMARY

- Resources - Grants, Council Tax & Business Rates

- Current Budget - base spending position
- Budget pressures, increased spending and investment plans
- Remove Covid & other one-off impacts
- Savings proposals and increased income

- Revised Spending Base

- Budget Gap

MTFP - COUNCIL, FEB 2022			
2022/23	2023/24	2024/25	
£000	£000	£000	
179,090	183,636	187,442	
171,317	179,090	183,636	
16,396	15,696	14,342	
-4,466	-1,553	0	
-4,157	-805	-715	
179,090	192,428	197,263	
0	-8,793	-9,821	
	-18,613		

Core Assumptions for Council Tax Increase:

- North Somerset Council Services	1.99%	1.99%	1.99%
- Adult Social Care Precept	1.00%	1.00%	1.00%

As can be seen, the MTFP reflected a balanced budget for 2022/23 although had residual short-falls in both of the following years, including a budget gap of **£8.793m in 2023/34** meaning that further work would be required to balance the MTFP across the period.

That in itself is not unusual because as is often the case, the forecasts relating to resources are not always as explicit as they need to be, as are largely dependent on receiving information from central government, which in recent years, has not been forthcoming due to other issues of national importance taking precedence, i.e. firstly Brexit and then the Covid pandemic.

3.2. Review of core assumptions

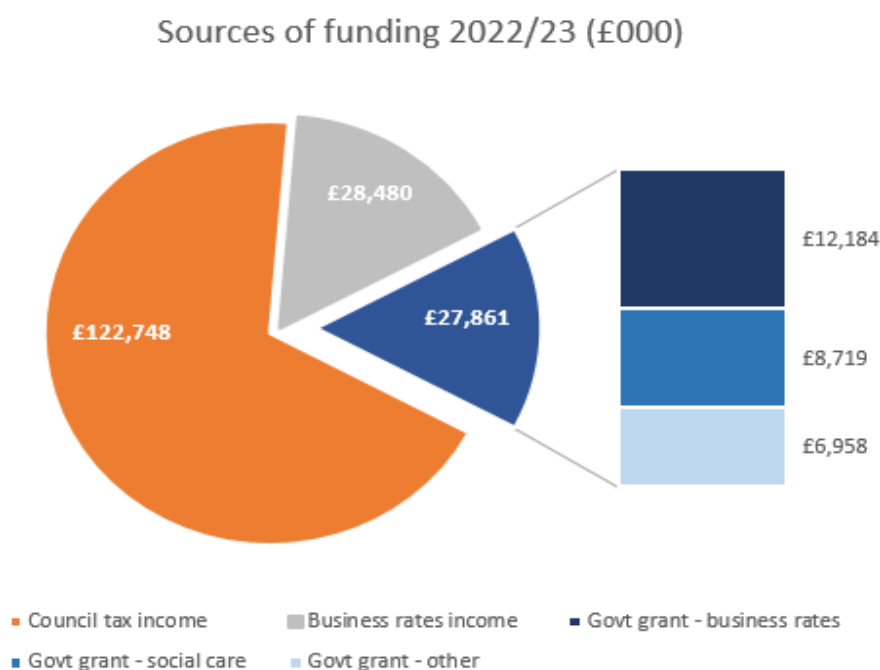
When developing financial plans across future years it is not possible for the council to forecast with complete certainty and so it has to rely on estimates, assumptions and judgement to support its plans. As these can be dependent on a range of variables or have a probability factor applied to them, then various potential MTFP outcomes are modelled.

Given the continuing uncertainties for the council in respect of both its funding envelope and its cost base these components are described within underlying working papers using the context of scenarios, showing a range of outcomes, with more refined values being used later within the process.

Work to review the underlying assumptions and update for material movements has started over recent months using information sources from within the organisation as well as broader external factors, and the following sections of the report provide an update on each of key areas.

3.2.1. Update on resources

In the current financial year the council has three main sources of funding which it uses to support its revenue budget, which are; council tax (£123m), business rates (£28m) and government grants (£28m) – all of which **total £179m** (excluding the £6m for town and parish precepts).



The government gives the council three types of grant;

- **£12m** - which is directly linked to business rate policy and activity;
- **£9m** - which is to help fund the cost of social care;
- **£7m** - the final category of grant is unallocated and can be used to support any area of the council's budget or spending plans, although does contain some time-limited elements.

Whilst the council holds a lot of information about the local income streams it generates each year and can forecast these, it often has to wait until much later in the process before it receives any indication from the government about future levels of funding that it will provide by way of grants.

In recent years the government has provided local government with annual grant allocations that have been fixed for a single year, rather than providing a settlement package that covers a multi-year period, which would better support financial planning.

However, in the Autumn of last year the government announced its Spending Review (SR2021), which covered a 3-year period to 2025. Councils were provided with their own specific grant allocations for the 2022/23 financial year and then headlines totals for the sector as a whole, for the following two years.

At the time the government indicated that it would proceed with some of the long-awaited changes to local government finance, such as the fair funding review or the levelling up agenda, as it is often now referred to. It was anticipated that this work would be started early in 2022 in readiness to influence the distribution of grant settlements to councils for years 2 and 3 of the SR2021.

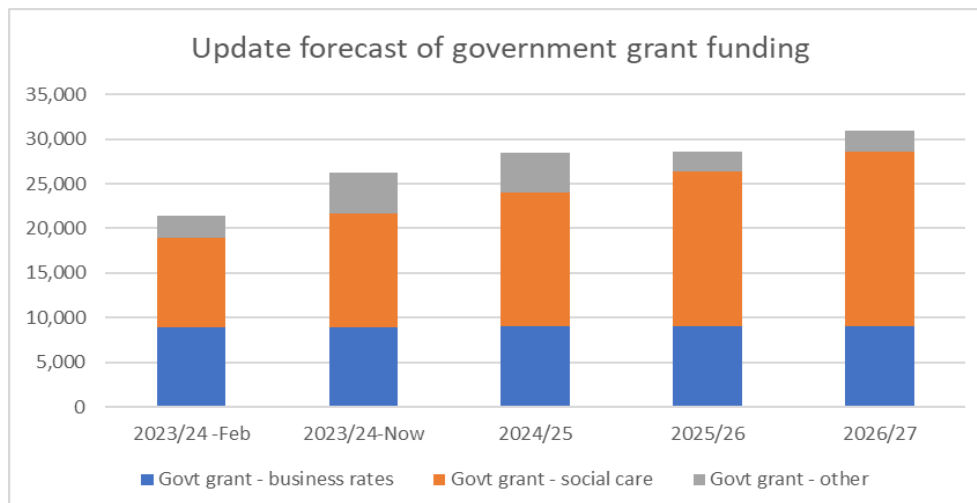
However, at this time no announcements on funding allocations or the long-awaited reforms have taken place as the government has been busy dealing with other priorities. Given that such reforms would take a long time to consult upon it is increasingly likely that they may be deferred, meaning that it is realistic to assume that the council will receive what is known as a rollover settlement, i.e. a funding package that has similar levels of funding to the current year, although inflated from the current baseline.

The council has therefore chosen to update the best-case scenario of its MTFP modelling earlier in the process and inflate some of the grant income streams that it expects to receive from the government at this point.

This approach is clearly a risk as there is no confirmation from the government to support these values however, prudent estimates have been based on a series of logical assumptions that are relevant to each specific grant, for example;

- **Revenue support grant** – rather than see this sum reduce as had previously been the case, the modelling recognises that this sum is included within the council's base funding level and so will continue into future years,
- **New homes bonus grant** – a similar approach has been taken to the revenue support grant, although actual numbers of new dwellings within the north somerset area have been reviewed to estimate a more realistic grant allocation,
- **Social care grant income for existing services** – these grants have been increased in each of the last 3 years at levels beyond inflation to take into account increased levels of demand and so rather than leave as a base level as is usually the case, it has been assumed that a similar increase will be applied in future years,
- **New grant for social care funding reforms** – last year the government confirmed that it would provide additional funding to councils in respect of new requirements associated with social care funding reforms. The MTFP currently assumes that the council will receive £2.3m more funding, which equates to the growth included within section 3.2 below and means that there is not a direct impact on the budget gap for next year. It should be noted, however, that this assumed £2.3m relates solely to estimated funding in relation to the "Fair Cost of Care" and the distribution mechanism

for this has not yet been agreed. In addition, the Council is expecting to receive an allocation from the published £771m in relation to the Care Cap and revised Means Test. Early indications are that this could be in the region of £3.8m. The MTFP will be updated in due course once further information is received.



The chart shows the impact of the council's updated modelling for government grant income within the MTFP which is an increase of approximately **£5m for 2023/24**, compared to the previous forecast included within the February 2022 projections.

The increased level of resources within the updated forecast will have a positive impact on the MTFP budget gap however, it does need to be recognised that this course of action will reduce the likelihood of the council receiving an unexpected 'windfall' or further increase in resources through the local government finance settlement when it is announced in December.

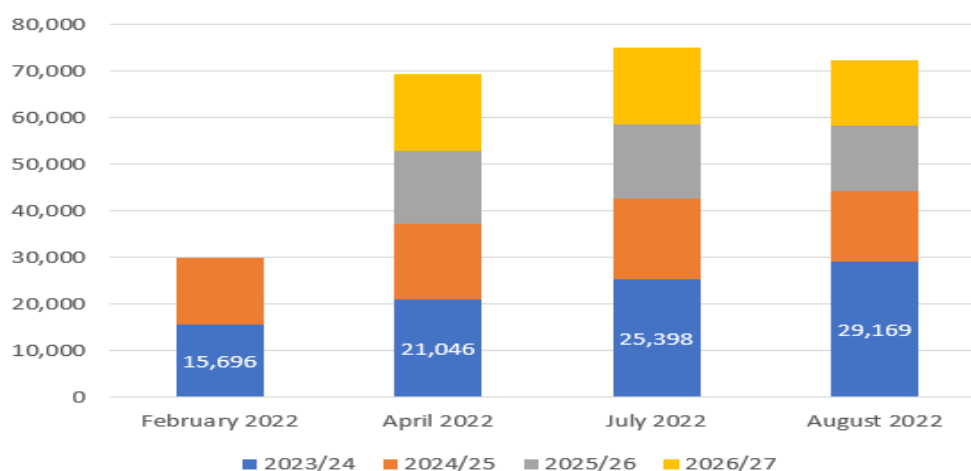
3.2.2. Update on pressures and additional spending - £29m

Assumptions have also made to forecast expenditure because whilst the council can control some of its costs by cash limiting areas of its budget, other elements are dependent upon national and economic drivers (such as inflation, interest rates, pay awards and pension charges) and also an ongoing and sustained demand for its services, as has been the case for areas like social care and home to schools' transport in recent years.

The budget monitoring report describes the impact of economic pressures such as inflation on the council's current year budget and given that many of these impacts are likely to continue into the medium term, they have also been reflected within the updated modelling shown here.

The council recognises that it has a degree of choice or flexibility in how it chooses to fund investment in priority areas or account for emerging risks however, after noting the significant impact that inflation has had on the updated forecasts, any opportunities to invest in anything other than core statutory services will be extremely limited and options so may need to be reconsidered at a later date.

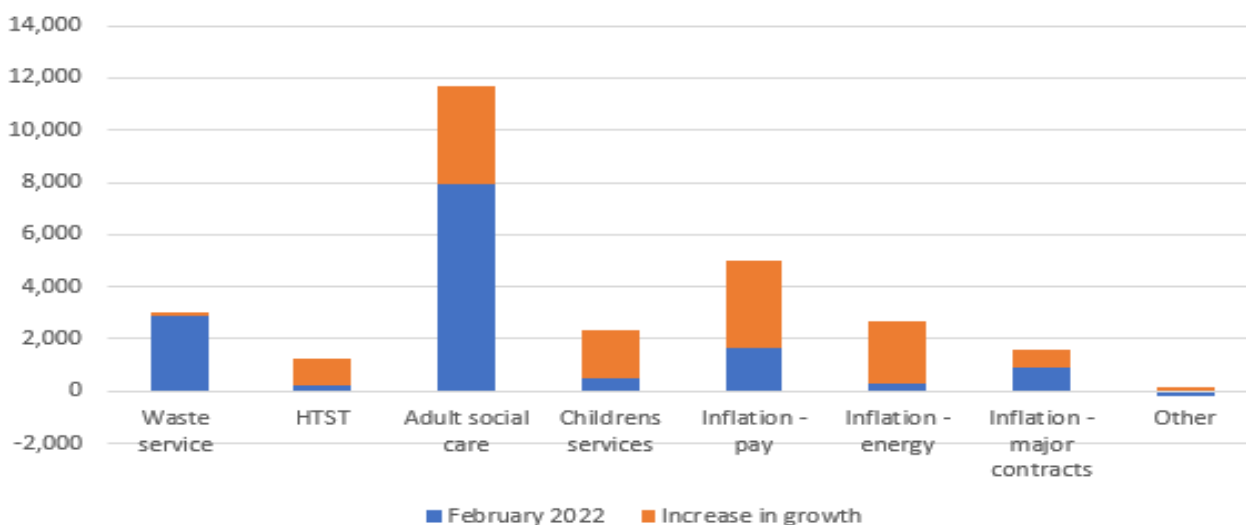
MTFP Growth Pressures



The chart shows how the council's modelling has been updated over recent months as it has reviewed each area of additional spending and risk. It can be seen that spending pressures have increased from an initial forecast of £16m in February, to over **£29m** now.

In order to provide an overview, the main elements of spending pressures that are currently reflected within the council's modelling are shown in the graph below. The blue shading denotes the items that were included within the MTFP in February and the orange shading indicates how the assumptions have changed over recent months.

MTFP - updated spending pressures



It is important to recognise that each of these items will continue to be reviewed on a monthly basis to ensure that they are fully supported by evidenced based calculations and assumptions wherever possible. If uncertainties remain then further modelling and sensitivity analysis will be undertaken to allow Members to feel confident that the budgets they consider for essential services for next year are robust.

The main areas of additional spending included within the MTFP are noted below.

Waste service - £3m

In September 2020, Council approved changes to the delivery model for its waste related services, moving away from an external contractor to instead creating its own local authority trading company, known as NSEC.

The business case supporting the decision and underpinning the Member briefings and reports, clearly recognised that that the costs of the new services would be higher than those paid to the previous contractor, although for a period of time they would be subsidised through a specific earmarked smoothing reserve.

The MTFP was updated to reflect these decisions and so for the last 2 years has recognised the increase costs of the new waste services within its spending plans. In previous years the service has delivered savings by way of increased recycling income and service efficiencies, which has helped to meet some of the additional costs and it is expected that further service related efficiencies will need to be included within the budget for 2023/24. It should be noted that these changes will be shown as savings plans against the base cost of delivery, to understand the decisions that will need to be taken to reduce the costs of delivering this service in the future.

Home to school transport - £1.2m

The latest forecasts show that the cost of delivering Home to School Transport services will increase again next year. The MTFP assumptions include a re-basing to reflect the increased demand not included within the base budget for the current year, further demand increases for children requiring placements from September 2022, an increase in contract costs for those contracts coming to an end within the next 6 months and a short-fall in the base budget for super inflation agreed in 2022/23.

Adult social care - £9.4m existing services (and £2.3m social care reforms)

A core component of the council's MTFP in recent years has been spending pressures in relation to Adult Social Care, which tend to fall into two main categories; increases in demand for our services and provider inflation. The latter is expected to be particularly significant in 2023/24, given the potential for an 8.6% increase in the National Living Wage, as well as the rising rates of general inflation.

Several new elements relating to the adoption of Social Care Reforms will be included within the council's MTFP for 2023/24 and will cover areas such as the implementation of the cap on care costs, the revised means test and also the "Fair Cost of Care". Whilst additional government funding will be provided for these additional responsibilities, the council is extremely concerned that the actuals levels of central government funding will be insufficient to cover our additional costs and lost income.

This is an extremely challenging situation as current levels of funding provided for existing adult social care needs are already insufficient.

Children services - £2.3m

The budget monitoring report being considered elsewhere on this agenda notes the forecast overspend in relation to children's placements. With much of these costs being on-going, they will need to be built into our considerations and planning for 2023/24.

Inflation on pay - £5m

When considering assumptions in respect of pay inflation over the medium term the council previously assumed an increase of 2%, an assumption that was similar to many councils across the country. However, that assumption now seems extremely low when compared to the seismic increase in inflation rates that have occurred over recent months. Although initially starting with energy, the economic situation has become a feature in many areas of the council's budget and is impacting on decisions relating to pay inflation.

The MTFP assumptions have therefore been updated to reflect an increase of 3% across the medium term, along with the short-fall in funding that will arise should the current pay offer for the 2022/23 financial year be accepted, as this is higher than the sum reflected within the base budget. These costs could increase further if the offer is rejected and revisions are made in the future.

Increase in energy prices - £2.7m

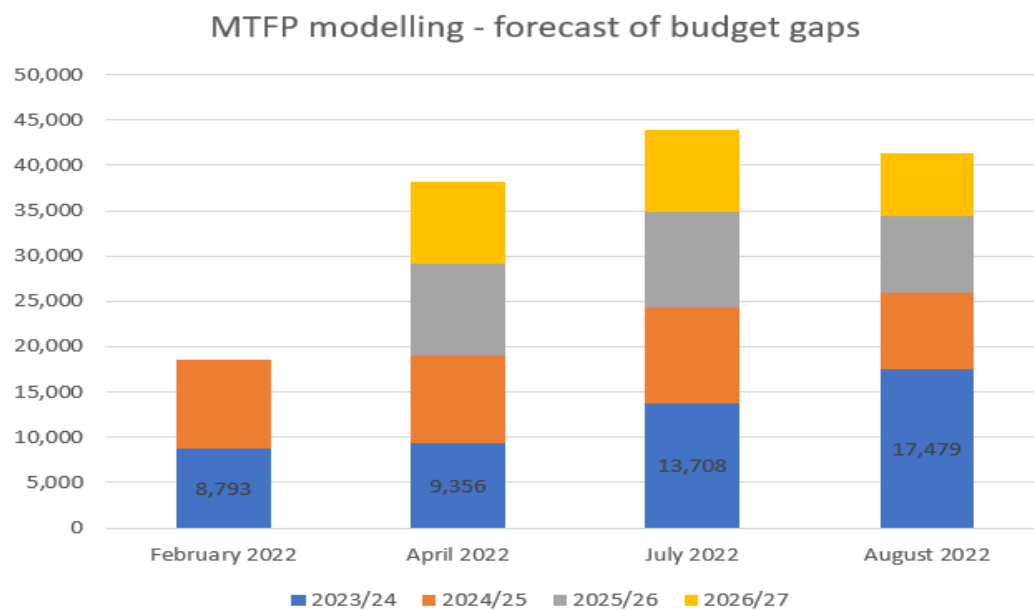
The updated MTFP modelling reflects the latest energy prices that are being tracked by the consultants through the procurement exercise, although they will be updated when a price has been agreed. This increase is substantial when compared to the base sums currently being paid and has the capacity to rise further if forecasts are to be believed.

Inflation on major contracts - £1.6m

Many of the indices used to calculation inflation provisions within existing contracts are significantly higher than rates published in February and whilst they continue to be challenged, the council must recognise its initial obligations. Some increases that have materialised during the current year may need to be reflected within the MTFP to cover any short-falls, although in areas such as fuel, it is hoped that some deflationary impacts may be realised. All rates will continue to be followed throughout the remainder of the year and updates fed into the MTFP.

3.3. Revised budget gap

Once the council has calculated its spending plans for the MTFP period then it can compare these to the resource forecasts it has developed to understand the scale of a potential budget gap. It is usual for councils to develop their financial plans in this way and also to describe their progress in terms of funding gaps.



The chart shows how the council's modelling has been updated over recent months and provides an indication of the latest budget gaps being considered across the revised period of the Plan.

A further and more specific analysis of this modelling is shown in the table below as individual elements of the projected budget forecasts are provided.

MTFP FINANCIAL SUMMARY	MTFP - AUGUST 2022				
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
- Resources - Grants, Council Tax & Business Rates	179,090	188,512	194,618	199,380	206,330
- Current Budget - base spending position	171,317	179,090	188,512	194,618	199,380
- Budget pressures, increased spending and investment plans	16,396	29,169	15,074	13,982	14,221
- Remove Covid & other one-off impacts	-4,466	-1,553	0	0	0
- Savings proposals and increased income	-4,157	-715	-505	-690	-440
- Revised Spending Base	179,090	205,991	203,081	207,911	213,161
- Budget Gap	0	-17,479	-8,463	-8,531	-6,831
			-41,304		
Core Assumptions for Council Tax Increase:	2.99%	2.99%	2.99%	2.99%	2.99%
- North Somerset Council Services	1.99%	1.99%	1.99%	1.99%	1.99%
- Adult Social Care Precept	1.00%	1.00%	1.00%	1.00%	1.00%

3.4. Approach to closing the budget gap

Budget reports over recent years have shown that the council has faced many difficult decisions as it has been necessary to balance its books and increase spending in areas of need and re-direct resources to fund costs associated with increased levels of demand for services, as well as the increased costs of core contracts, most notably in areas such as adult social care and home to schools' transport.

This has occurred at the same time as receiving marginal increases in funding from the government through annual settlements. Reviews show that the council has never been provided enough money to cover all of its financial pressures which has meant that savings plans or budget reduction ideas have had to be included within the budget.

The council's latest financial modelling shows that it is facing a similar situation for the year ahead, although arguably, the backdrop of the worsening economic position and spiralling inflation, means that the challenges have never been greater and so it is essential that robust financial strategies are put in place to ensure that the council can deliver balanced budgets in the future.

In the first instance one of the councils' main objectives is to reduce its budget gap and keep the need for savings at the lowest possible levels, and this has been achieved by operating a financial strategy which has included the following core principles;

- **Managing its biggest areas of demand-led spending**:- trying to reduce the rising costs of services where possible by challenging any budget increases. To make sure that we don't challenge too far, we continue to build budgets that are affordable, but also safe and robust as they are linked to business modelling projections. We have introduced 'cost and volume' models in areas such as social care, waste services and home to schools transport, as these can clearly link projected numbers and volumes of activity or service provision, with the costs that are paid to providers;
- **Reducing areas of choice or deferring non-essential spending** – the council will shortly be reviewing its capital investment plans to prioritise spending, focusing on those areas with the greatest need within our communities;
- **Maximising the income it can generate** – the Executive understands that it needs to take a commercial approach to decision-making in respect of the services that we deliver to the public. This means that we actively encourage and support changes that make sure that our services are delivered efficiently and economically as possible; and also that customers contribute a realistic price through any fees and charges that they may be required to pay.

We recognise that changes for our customers in these areas may be difficult to understand, but we can no longer afford to subsidise discretionary services when there are people who really do need to receive statutory services such as care in their homes or children who need to be protected and looked after;

- **Maximising local resources** – the council understands that it can develop sustainable local income streams by supporting and delivering economic prosperity within communities, specifically through the delivery of new homes and businesses within the area;

As there will inevitably still be a large budget gap after this process, the council will be required to introduce some savings plans in order to balance the budgets across the medium term.

Although the Executive have a clear aim in that they would like to continue to protect front-line services from direct cuts in service levels, they recognise that there will be some hard choices and decisions that need to be made, given the unprecedented levels of additional costs that the council is likely to face in the coming years.

Whilst the approach continues to be supported by both officers and Members, it clearly becomes ever more challenging as time goes on as the opportunities to deliver further savings from efficiencies reduces, which does mean that the council will need to identify other alternatives.

Over recent months the Corporate and Directorate Leadership Teams (CLT, and DLT's), have continued to work on closing the budget gaps across the period. This process initially included allocating savings targets to each of the directorates to ensure that all services and all areas of the council could help to contribute to the financial challenge in a fair and consistent way, although was later adapted to understand the potential impacts on the council if all areas of the council's budget were to change by 10% because of the deterioration in the council's medium term forecasts.

The outcome of this work is currently being assessed and validated to ensure that proposals are supported by evidenced based plans and are deliverable within the required timeframes and will be shared within the next update report.

3.5. Timetable and next steps

The formal and informal milestones associated with the MTFP process are as follows;

- Report to Council, November 2022 – emergency budget for 2022/23 – which may impact on the MTFP in terms of updated spending plans and savings proposals
- Report to Executive, December 2022 – updated financial summary incorporating draft savings proposals;
- Scrutiny – All Member sessions potentially planned for October and December
- Taxbase, December 2022 – Executive Member decision on the forward plan
- Provisional local governance finance settlement, December 2022
- Other engagement – December and January, including equalities forum
- Report to Executive, February 2023 – recommended balanced revenue and capital budgets for 2023/24 to Council; detailed Equality Impact Assessments; consideration of alternative budgets;
- Report to Council, February 2023 – approval of the 2023/24 revenue and capital budgets along with 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 fully committed to ensuring that residents, business and other stakeholders from across the district are included within its MTFP planning, through scrutiny, consultation and engagement plans.

The council has recently had discussions within the Department for Levelling Up, Housing and Communities (DLUCH) in order to share details of some of the financial issues that it is currently experiencing. During the meeting the council also shared the range of strategies and potential choices that it will need to consider in the future, in order to balance the budgets and stabilise its financial position.

As DLUCH provide specific support and advice to those councils experiencing difficulties, whether on an informal basis, or potentially more formally by issuing a S114 notice, they advised that they would recommend following a similar approach that the council has outlined and described in section 3.4 above.

They also advised that in the past they have actively encouraged other councils who were facing similar issues to ensure that they have fully utilised their local powers, specifically in relation to decisions surrounding maximising local income streams and improving service efficiency. Ultimately the governments financial assessment processes would firstly look at what steps local authorities have taken to minimise the severity of the impacts they are facing, before they consider what additional support or interventions that they could provide.

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 including balancing their budgets each year from within their own resource allocations, although further details and requirements are contained within related legislation.

The **setting of the council's budget** for the forthcoming year, and the ongoing arrangements for monitoring all aspects of this to ensure that the councils spending is within the approved limits, is an integral part of the financial administration process.

Further requirements are contained within the Local Government Act 1988, Section 114 (3) which provide for instances whereby the chief finance officer of an authority makes a judgement that the expenditure of the authority in a financial year is likely to exceed the resources available.

7. Climate Change and Environmental Implications

Both of the reports presented to the Executive at this meeting, in terms of monitoring of the budget for the current year and also **setting budgets for future years**, will be impacted by the increasing costs of energy, which does provide an opportunity to highlight these issues.

Whilst there are no specific climate related impacts to note at this stage, it is clear that 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 our energy usage and associated costs to ensure a more sustainable future.

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.

The council recognises that known risks, together with the unconfirmed, but anticipated timeframes surrounding funding settlements, does attract a high degree of risk in terms of making specific decisions around its financial planning. 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 so that it can be prepared for whatever the outcomes of national policy turn out to be.

Officers will continue to test the impact of varying key assumptions in the medium term financial strategy to assess the sensitivity of the ranges of 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 in future years,
- Continued uncertainty about future reforms of local government finance and the impact this may have on the council's resources,
- Continued uncertainty about the long-term funding solution for adult social care, as well as the potential impacts that may arise in this area following the Social Care Reforms, especially potential short-falls in funding in relation to the "Fair Cost of Care", the Care Cap, and changes to the means test
- Ongoing uncertainty across a range of economic factors that are likely to drive up cost in key areas such as pay, energy and third-party contracts, as well as impact on the sustainability of providers and partners, e.g. notably those who provide social care services and also bus, transport and leisure related services,
- 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 special educational needs and disability SEND),
- Ability to facilitate economic and housing growth to increase income and generate wider economic benefits,
- Ability required to deliver change through transformation and innovation and capture the financial benefits,
- Impact of major capital projects,

In addition, there are specific concerns across the sector relating to the possible end of the statutory override period in relation to the Dedicated Schools Grant deficit. This is currently

set for the end of March 2023, although the Government is currently consulting with all councils about the potential impacts should that go ahead. Alongside this, the council is due to begin its “Safety Value” negotiation with the Government as to how, in the medium term, the high needs block of the DSG can be brought into in-year balance and how, as a consequence, the Government may contribute to reducing the historic deficit.

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, along with the supporting financial monitoring processes and performance management framework are vital tools to help align effort across the organisation and ensure that services are all are focused on delivery to agreed community and organisational priorities.

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. The Corporate Plan continues to be reviewed in the light of emerging risks and pressures and steps are being taken to assess timeframes and monitor key outcomes.

11. Options Considered

None at this stage – the council is legally required to set a balanced budget and to implement a robust financial framework to ensure that spending is aligned to available resources and all available options to achieve this are considered within the details shared above.

There will be opportunities later in the process to describe savings proposals that were considered as options to balance the budget for future years, although they were not progressed.

Author:

Amy Webb, Director of Corporate Services, amy.webb@n-somerset.gov.uk
Jo Jones, Finance Business Partner (Place), jo.jones@n-somerset.gov.uk
Katherine Sokol, Finance Business Partner (Adults and Children’s Services),
katherine.sokol@n-somerset.gov.uk
Melanie Watts, Head of Finance, melanie.watts@n-somerset.gov.uk

Appendices:

Appendix 1 Glossary and Terminology

Background Papers:

Exec Report – February 2022, Medium Term Financial Plan and Revenue Budget update

Council Report – February 2022, Council Tax Setting 2022/23

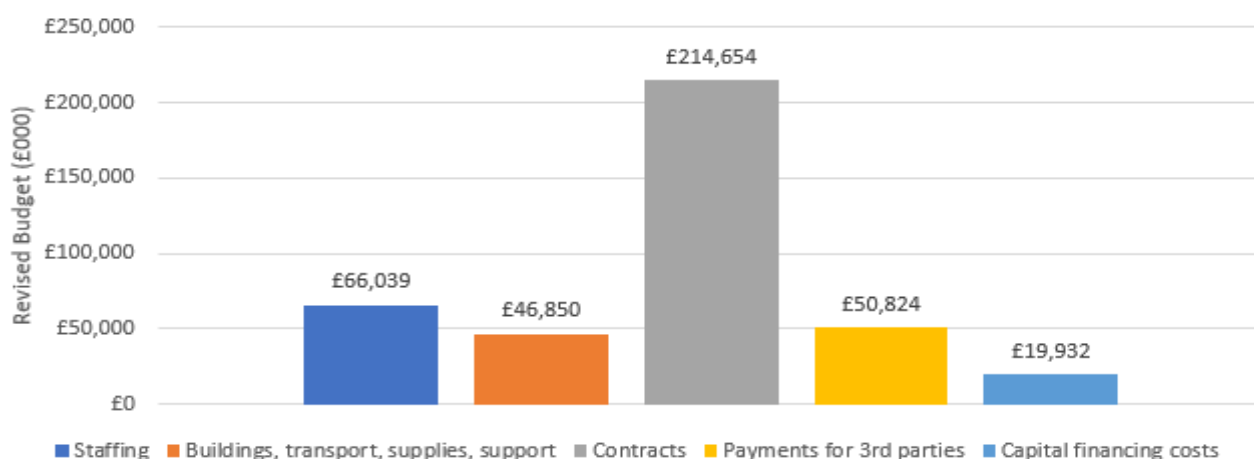
Appendix A - Glossary & Terminology

General Fund Revenue Budget - this covers expenditure and income relating to the day to day delivery of core services and functions. The table below shows that for 2022/23 this equates to £398.299m of gross spending across all of our services, with a net revenue budget of **£185.475m** including town and parish council precepts, or a net budget of **£179.090m**, excluding the £6.384m for town and parish precepts.

	REVISED BUDGET			
	Expenditure £	Income £	Reserves £	Net £
Service Expenditure Budgets;				
Adult Social Services	114,854,661	(38,760,546)	(923,481)	75,170,634
Children's Services	42,128,489	(14,534,612)	(617,289)	26,976,589
Schools & DSG Budgets	52,470,994	(52,470,994)	0	(0)
Corporate Services	82,541,279	(53,103,387)	(1,976,592)	27,461,300
Place Directorate	60,436,395	(25,318,145)	(5,038,283)	30,079,967
Public Health & Regulatory Services	16,014,843	(11,909,951)	(2,730,732)	1,374,160
Capital Financing	15,350,590	(4,143,590)	0	11,207,000
Precepts & Levies	6,683,897	0	0	6,683,897
Non Service Budgets	7,818,264	(1,296,980)	0	6,521,284
Total Net Revenue Budget	398,299,411	(201,538,205)	(11,286,377)	185,474,830
Total Revenue Budget Resources	0	(182,378,102)	(3,096,728)	(185,474,830)
NET REVENUE BUDGET TOTALS	398,299,411	(383,916,307)	(14,383,105)	(0)

The chart below shows the type of expenditure included within the £398m gross revenue budget and what we spend this money on.

Types of expenditure planned for 2022/23 (£398m)



Income totalling **£202m** is received into the revenue budget during the year from a variety of sources and is used to offset gross expenditure in order to reach the 'net revenue budget'. This not only includes rental income, contributions, recoveries, reimbursements and interest, but also **£39m from fees and charges** for some of our services such as planning, building control, regulatory services, car parking, garden waste and adult social care. The income received from service users goes directly to the relevant budget and helps to defray the cost of providing the services.

One other income stream included within the net revenue budget is 'grants' and this is an important source of funding for the Council as we expect to receive **£137m of grant income** during the current financial year, which equates to 68% of the total income receivable during the year. Material sources of grant income are provided by Government departments and include the following;- £52m Dedicated Schools grant, £39m Housing Benefit grant, £10m Public Health grant, £11m Better Care Fund grant which is used to support adult social care related services.

Over recent years the Council has spent increasing amounts of money on social care activity reflecting the growing demand for these services as well as an increase in the complexity of needs for both adults and children. Associated pressures are Special Educational Needs and Home to Schools Transport services.

Original budget – this is the budget initially approved by Council in February 2022. The budget can be changed or updated throughout the year by way of a budget virement, often as a result of financial responsibility being transferred between service areas or to enable the Council to take into account new funding and spending opportunities. **Virements** are added to the Original Budget, and then form the **Revised Budget** throughout the financial year. The Council prepares a monthly review and analysis of budget forecasts during the year, which are shared with the Executive and the Corporate Leadership Team.

Funding Sources – these are also known as financing resources and are essentially income streams which the Council can use to fund the net cost of the services it provides, they include the following;

- **Council Tax Precept** – this is the annual charge levied by the Council on the Collection Fund and each year and is subject to 'capping', which is a term used to describe the maximum increase that the Government will allow councils to apply year-on-year.
- **Council Tax Income** – the Council can estimate how much council tax income it is likely to receive each year by understanding the following elements:
 - Council Tax Base – the overall total number of households in the area, the number of properties within each of the council tax bandings and also a forecast of housing growth
 - Council Tax Precept – annual charge per household, which is subject to a maximum annual increase
 - Discounts and exemptions – awarded to individuals in line with approved policies
 - Collection Rate – which is largely linked to how successful councils will be in collecting their council tax although also provides cover for changes in circumstances or timing differences in core assumptions
- **National Non-Domestic Rates (NDR)** - this is also known as 'Business Rates' and is a national scheme whereby businesses pay an annual charge based upon the rateable value of their property and a national 'multiplier'. Income is levied at a local level and councils are allowed to retain a share of the income it generates. For North Somerset this means the following;
 - **National system** – 49% of the income is retained by North Somerset Council; 1% is allocated to the Fire Authority and 50% is retained by Central Government
 - **City-Region Deal Pooling** – 100% of the business rates income generated within the 'enterprise area' is retained and pooled with other councils within the region. This income is redistributed back to the councils to fund strategic capital investment plans as well as support the revenue budget

- **Business Rate Income** - the Council can estimate how much business rate income it is likely to receive each year by understanding the following elements:
 - NNDR Tax Base – the total rateable value of business-related properties in the area, the type of businesses they are and also a forecast of potential growth
 - Multiplier – this is set nationally each year and drives a maximum annual price related increase
 - Reliefs, exemptions and appeals – awarded to businesses in line with national and local policies and guidance. The council may be compensated for reliefs awarded to businesses through national schemes
 - Collection Rate – which is largely linked to how successful councils will be in collecting their business rates although also provides cover for changes in circumstances or timing differences in core assumptions
- **Revenue Support Grant (RSG)** – this is received directly from Central Government and is based on the Settlement Funding Agreement which was determined following an analysis of spending requirements across all councils in England. The Settlement Funding Agreement can be set annually or for a longer period in line with national objectives. Clearly more certainty is provided within a medium-term outlook should the funding periods extend beyond one-year. A 3-year Spending Review was shared by the Government for the period 2022 to 2024, although this only provided confirmation of the Revenue Support Grant for the 2022/23 financial year.
- **New Homes Bonus Grant (NHB)** – this grant was introduced in 2011 and is paid to councils across the country to reflect and incentivise housing growth within their areas. Allocations are based upon new-build homes, conversions and long-term empty homes brought back into use and can be paid over multiple years. The Government has undertaken several reviews of the NHB scheme and has signalled its intention to change or remove the scheme in 2022/23.
- **Adult Social Care Support Grant** – the demands and costs associated with providing adult social care services have grown significantly over recent years and the Government has provided additional resources through a series of mechanisms to help fund these pressures;
 - Joint funding arrangements, e.g. the Better Care Fund
 - Locally generated decisions, e.g. levying an Adult Social Care Precept to taxpayers
 - Direct grant award – **Adult Social Care Support grant**

Direct national funding is allocated to councils on an annual basis as part of the Local Government Finance Settlement and distributed through the adult social care relative needs formula.

- **Section 31 Grants** – are made from Central Government, determined on an annual basis and confirmed through the Local Government Finance Settlement. The largest S31 grants for North Somerset Council in the current financial year relate to **Business rates**. These relate to the reimbursement from the government for reduced business rates income arising from national policy decisions, e.g. small business rate relief, rural services, transition grants.

Section 114 Notice (S114) – within the Local Government Finance Act 1988, Section 114 (3) dictates that: “the chief finance officer (CFO) of a relevant authority shall make a report under this section if it appears to him / her that the expenditure of the authority incurred

(including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

This means that the CFO has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one. It means that **no** new expenditure is permitted, with the exception of that spending which is linked to statutory services, including safeguarding vulnerable people. Existing commitments and contracts would continue to be honoured.

This would be a very serious matter and Councillors would have 21 days from the issue of a S114 notice to discuss the implications at a Full Council meeting. Mitigation measures could include a variety of options, for example; the establishment of spending panel to consider all items of expenditure, discussions with central government, stop delivering non essential services, stop delivering capital investment, appointment of external advisors to oversee strategic decisions and governance arrangements.