

North Somerset Council

Report to the Executive

Date of Meeting: 6 September 2023

Subject of Report: Medium Term Financial Plan update

Town or Parish: All

Officer/Member Presenting: Mike Bell, Leader of the Council

Key Decision: No

Reason:

This is an update report and no decisions are being taken at this point to incur expenditure or make financial savings

Recommendations

The Executive is asked to note;

- i. The updated range of budget projections for inclusion within the Medium Term Financial Plan (MTFP) as detailed within the report,
- ii. The process, next steps, engagement plans and timescales associated with finalising the MTFP for the period 2024-2028, and also for setting the revenue budget for the 2024/25 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 2027/28, which was last considered by the Executive in February 2023. At that time the council had a budget gap of **£27m** over the 3-year period to 2026, with **£10.6m** of this relating to the 2024/25 financial year.

The council has a well-established process to review and assess its financial performance and position, in 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 **£50m**, with a short-fall of **£17m** in 2024/25.

The council recognises the importance of aligning limited resources and allocating them to the priorities identified within the Corporate Plan and so time is being taken to ensure that the timescales associated with the refresh of the Corporate Plan are being mirrored with the MTFP work-plan. This means that we can continue to review all aspects of financial planning and ensure that they will still meet the requirements of the refreshed Corporate Plan.

There is a legal requirement to prepare and approve a robust revenue budget for the 2024/25 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 2024.

2. Policy

The council has an annual net revenue budget of £210m for the 2023/24 financial year, which will be the starting point for the rollover of the MTFP process, and also a capital investment programme for the period 2023-2029 based around the needs and ambitions described within the Capital Strategy, which totals £454m.

The council's MTFP supports the on-going provision of services for the people of North Somerset, within the context of the priorities and ambitions for the area, as set out within the 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 the February 2023 position

The council follows a traditional incremental approach to its annual budgeting cycle whereby the approved revenue base budgets are 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 considered to be Corporate Plan ambitions and priorities.

Consideration of the council's in-year budget monitoring reports alongside the medium term financial planning process means that information is consistently shared and reflected across both frameworks reducing the risks that can feature if such reports and workstreams are prepared in isolation of each other. Therefore, the in-year budget monitoring report, which is being considered elsewhere on the agenda for this meeting, is important to support the understanding of some of the emerging issues within this more medium term report.

The council's financial plans were last approved in February 2023 and the table below provides a summary at that time.

MEDIUM TERM FINANCIAL PLAN SUMMARY 2020-2028	APPROVED BUDGET		FUTURE MTFP PROJECTIONS			
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
- Resources - Grants, C.Tax & Business Rates	179,090	202,766	211,825	215,948	222,284	0
- Current Budget - base spending position	171,317	179,090	202,766	211,825	215,948	0
- Budget pressures, increased spending	16,172	35,873	21,681	14,022	13,912	0
- Remove covid & other one-off impacts	-4,242	-1,777	0	0	0	0
- Savings proposals and increased income	-4,157	-10,420	-2,043	-722	-690	0
- Revised / Forecast Spending Level	179,090	202,766	222,404	225,125	229,170	0
- Budget Gap / (Surplus)	0	0	10,579	9,176	6,886	0
Actual Council Tax Increase:	2.99%	4.99%				
- North Somerset Council Services	1.99%	2.99%				
- Adult Social Care Precept	1.00%	2.00%				
Indicative Council Tax Increase, based on Govt Capping Limits:			4.99%	2.99%	2.99%	
- North Somerset Council Services			2.99%	1.99%	1.99%	
- Adult Social Care Precept			2.00%	1.00%	1.00%	

As can be seen the MTFP reflected a balanced budget for 2023/24, although had residual short-falls in each of the following three years, meaning that further work would be required to balance the MTFP across the period. The budget gap for the **2024/25 year was £10.579m.**

3.2. Review of core assumptions and estimates

When developing financial plans across 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.

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 income and funding assumptions

In the current financial year the council has budgeted to receive **£203m** of income from the following sources, which it can use to pay for the cost of services included within the annual revenue budget;

- Council tax income £131m / 65%
- Business rates income £ 35m / 17%
- Government grants £ 32m / 16% (£11m of which relate to business rates)
- Reserves £ 5m / 2%

The **£203m** income figure is the baseline budget figure that we will use within the MTFP modelling as it excludes the £7m that is collected on behalf of the town and parish councils, and given to them by way of an annual precept. The council's budget monitoring report for 2023/24 will show a total revenue budget of **£210m** for the year because we are required to include town and parish council precepts within our reporting framework.

Council tax income

This is the largest source of funding that is being used to pay for services and although the council knows how much income it is currently collecting from council tax payers, it can be difficult to project how much income can be collected in the future and reflected within the budget plans. This is because the annual inflationary increases applied to council tax rates are driven by a combination of national and local factors;

- National – central government place a 'cap' or ceiling on the amount that councils can increase their rates by each year to ensure that the interests of local residents are protected, and also so that it maintains control of the overall funding levels within local government as a whole. The capping limits are included within the provisional local government settlement announcements, which are usually not shared with councils until late December each year,
- Local – local councillors have the responsibility to approve annual council tax rates and bandings for their area, where they are within the national capping limits. It is possible to approve an increase that is above these limits, although that must be subject to a successful referendum within the relevant area.

The council did receive information in December 2022 which indicated that the same capping limits would be used to support both the 2023/24 and 2024/25 budget setting processes and so these rates have been used within the MTFP modelling. This would be considered a best-case scenario and is only a financial modelling assumption and in no way seeks to pre-judge future decisions that will be made by members later in the process.

Business rate income

Income levels are linked to the rateable values given to properties by the valuation office and then subject to an inflationary increase at a national level called a multiplier. Central government controls the annual increase through the multiplier and shares this information with councils as part of the annual Settlement process. An estimated increase has been included at this time, linked to CPI rates.

Rateable values are subject to a revaluation process every three to seven years. The most recent revaluation update, applied in April 2023, was therefore reflected within the budget for the current financial year however, the Valuation Office have since reassessed many properties which means that there is some uncertainty in respect of the underlying level of business rates income for the local area. This will be reviewed over the next few months and updates included in future reports.

Government grants

There remains a lot of uncertainty surrounding the amount of grant income that the council can expect to receive during the MTFP period, particularly with regards to funding for social care and the associated reforms, the new homes bonus grant scheme and also the services grant.

The MTFP has assumed;

- an increase in social care funding based on our potential share of national funding totals,
- that the new homes bonus scheme and the services grant will both continue for a further year, although could be revisited and reformed at some point in the future.

Appendix 2 provides a financial summary of the council's resource assumptions that have been included within the MTFP.

3.2.2. Update on spending pressures and estimates

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, energy, interest rates and pay awards) and also an ongoing and sustained demand for council services, as has been the case for areas like children's social care, home to schools transport and waste tonnages in recent years.

The budget monitoring report describes the impact of these pressures on the council's budget during the current financial year and an assessment has been made as to how many of these impacts are likely to continue into the medium term – where that is likely to be the case, they have also been reflected within the updated MTFP modelling.

Appendix 3 provides a financial summary of the council's spending pressures and costs that have been included within the MTFP.

3.3. Revised budget gap

Once the council has updated 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 table below provides an updated summary of the financial position for August 2023.

MEDIUM TERM FINANCIAL PLAN SUMMARY 2020-2028	APPROVED BUDGET		FUTURE MTFP PROJECTIONS			
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
- Resources - Grants, C. Tax & Business Rates	179,090	202,766	212,358	217,480	223,866	230,472
- Current Budget - base spending position	171,317	179,090	202,766	212,358	217,480	223,866
- Budget pressures, increased spending	16,172	35,873	26,823	19,139	15,832	16,503
- Remove covid & other one-off impacts	-4,242	-1,777	0	0	0	0
- Savings proposals and increased income	-4,157	-10,420	0	0	0	0
- Revised / Forecast Spending Level	179,090	202,766	229,589	231,497	233,312	240,369
- Budget Gap / (Surplus)	0	0	17,231	14,017	9,446	9,897
Actual Council Tax Increase:	2.99%	4.99%				
- North Somerset Council Services	1.99%	2.99%				
- Adult Social Care Precept	1.00%	2.00%				
Indicative Council Tax Increase, based on Govt Capping Limits:			4.99%	2.99%	2.99%	2.99%
- North Somerset Council Services			2.99%	1.99%	1.99%	1.99%
- Adult Social Care Precept			2.00%	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 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 sustained inflationary pressures and a cost of living crisis 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;

- **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. Activities in this area are actively supported by the council's economy, planning and place-making teams;

- **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;

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. It is important that when work to scope and identify savings plans is undertaken, that a focus is given to all of the 4-year period of the MTFP to ensure that such proposals are aligned with aims and ambitions reflected within the Corporate Plan and can be implemented across the organisation without impacting on service delivery outcomes.

3.5. Timetable and next steps

The formal milestones associated with the MTFP process are documented in **Appendix 1** although, it should be noted that there are some dependencies on external factors within the Plan which may be outside of the councils control. One example of this would be the timing of information from the government who are due to provide information about future grant funding levels, which in turn will impact on the financial modelling. Future reports will share details of any changes to draft plans.

3.6. Combined consultation and engagement on the refresh of the MTFP and the Corporate Plan

As part of the combined refresh of the Corporate Plan and development of the MTFP process the Executive are keen to involve as many people as possible in the different stages and are developing a comprehensive consultation and engagement plan so that they can listen to views and opinions and use this as an evidence base to prepare a refreshed plan for the future.

The current proposals include a phased approach;

- A period of **engagement** with residents and stakeholders (including Town and Parish Councils) which will enable **input** into the development of Corporate Plan ambitions and commitments and also the MTFP development, including in areas such as reflecting personal priorities and making suggestions for savings / transformational options. This engagement programme will run mid-August through to mid-October and will combine virtual and face to face engagement sessions across a number of platforms including a bespoke young person's engagement plan.
- A period of **consultation** with residents and stakeholders (including Town and Parish Councils). This consultation is to **feedback** on the DRAFT Corporate Plan and MTFP that have been formulated after receiving input at the earlier stage. This consultation programme will run mid-October through to December and will combine virtual and face to face consultation sessions across a number of platforms inc. a bespoke young person's consultation plan.
- A plan of engagement and consultation with staff across the organisation, running from August through to December.

The more detailed engagement and consultation plan suggest that we engage and consult with residents, stakeholders, and staff through the following methods:

External focus

- A residents/stakeholder's survey to enable input into the development of the Corporate Plan and MTFP followed by a survey to consult on the drafts. These will be hosted on our online consultation platform with paper copies distributed to libraries, Children's Centres and community hubs. Members will be asked to share the surveys across their socials and raise in any surgeries, North Somerset Live events etc.
- A stakeholder audit is being undertaken to support this work. The Corporate Plan working group have been tasked with inputting all the stakeholders in their areas of work and across their directorates into a template, to ensure we have wide-ranging reach. As part of this stakeholder audit a stakeholder matrix has been agreed to analyse the level of engagement each stakeholder would benefit from.
- A Town and Parish Council's survey to input into the development of the Corporate Plan/MTFP followed by a survey to consult on the drafts. These will be via direct email invitation.
- A series of workshops over the summer with the four town councils and the parish councils to support the ask in the survey.
- A series of sessions with specific stakeholders such as North Somerset Together, Locality Partnerships, VCFSE leads to support the ask in the survey.
- A series of face to face 'town hall' session in the four towns open to residents to feed into the development and one further session held virtually for rural residents, hosted by the town councils (link to town council meetings where possible).

- A tailored young person's engagement and consultation plan focused on social media activity but also face to face sessions with key groups such as the Children in Care Council.

Internal focus

The council's ambitions will be finalised and commitments agreed via a series of development sessions with the following;

- Executive and Corporate Leadership team
- Directorate Leadership teams
- Wider Directorate Leadership teams
- Leadership Delivery team
- Scrutiny chairs session
- Group leaders' session
- Staff conferences
- Staff groups
- All staff Pulse Survey

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 the council's 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. This report is a key part of the council recognising its duty and taking steps to ensure that suitable provision is put into place. Further details have been provided in Section 3.6 above.

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.

Future MTFP reports will provide a list of the key risks that have been identified as part of the process and set within the council's risk management matrix.

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 refresh of the Corporate Plan will inform the future ambitions of the council.

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. Whilst the MTFP process works towards that outcome, this report does not include any specific recommendations or decisions.

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Appendices:

Appendix 1 Proposed timelines to support the MTFP process

Appendix 2 Updated income and funding assumptions

Appendix 3 Updated spending pressures and estimates

Background Papers:

Exec Report – February 2023, Medium Term Financial Plan and Revenue Budget update

Council Report – February 2023, Council Tax Setting 2023/24

Transport, Climate and Communities Policy and Scrutiny Panel Report – July 2023, MTFP planning

MTFP process within the context of the council's formal reporting structure

APPENDIX 1

Executive	06/09/2023	18/10/2023	06/12/2023	07/02/2024
Report type:	Information	Information	Information	Decision
Report purpose:	Refresh / rollover MTFP for 2024-2028	Progress update report - to be aligned with corporate plan refresh	Progress update report	Submission of 2024/25 Revenue Budget to Council for approval
	Scene setting re broader context, challenges and opportunities; sharing core assumptions for resources and spending plans	Include details about specific spending pressures and £ impacts	Present draft balanced budget for 2024/25 along with list of savings plans	Directorate budget allocations for 2024/25 along with final list of savings plans
	Also share range of updated budget gaps for scenarios and MTFP timeline	Include savings strategies being considered over 4 year period	Share updated budget gap 2025-2028 and progress	Reminder of updated budget gap 2025-2028
Report purpose:	-	Share draft principles linked to the council's Capital Strategy	-	Submission of 2024/25 Capital Strategy to Council for approval
Report purpose:	-	-	-	Approval of Fees & Charges for 2024/25
Council	19/09/2023	14/11/2023	09/01/2024	20/02/2024
Report type:	-	-	Information	Decision
Report purpose:	-	-	Update resources from LG Finance Settlement and Taxbase;	Approve 2024/25 Revenue Budget and Council Tax increase / bandings
Report purpose:	-	-	-	Approve 2024/25 Capital Strategy
TCC Scrutiny Panel	20/07/2023	30/11/2023	29/02/2024	
Report type:		Information	Information	Information
Report purpose:		MTFP scene setting to provide high level overview of the process and timeline; Discussion opportunity to feed into how the P&S activity should be undertaken this year; Discussion opportunity to feed in how engagement activity could be undertaken to support the budget setting process	Progress report update covering financial forecasts and assumptions as well as scrutiny activity and engagement activity (nb some aspects will be driven by the outcomes of information gathered from previous meeting) Will also provide an opportunity to feed specific ideas and proposals into the MTFP process over the 4-year period	Look back and review of policy, scrutiny and engagement activity supporting the MTFP and discussion opportunity to inform future plans;

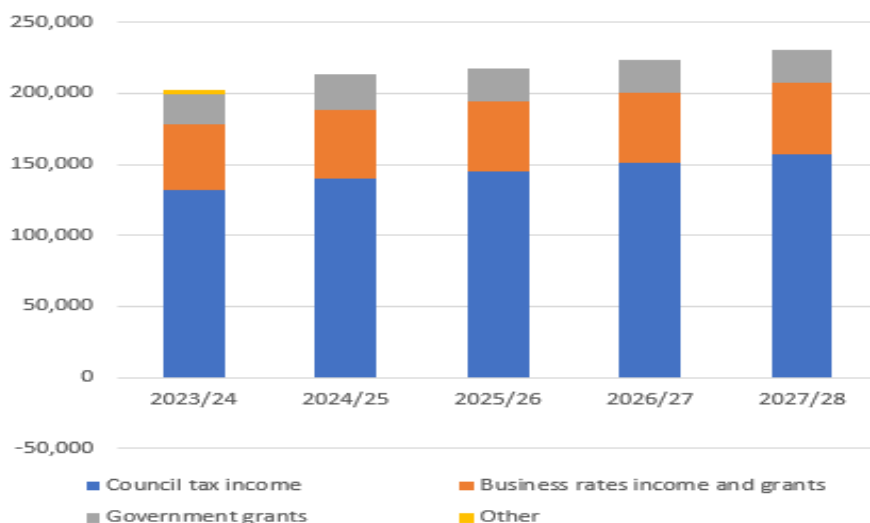
Income and funding assumptions

	Budget	Future MTFP Projections - February 2023				Future MTFP Projections - July 2023			
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Council tax income	131,843	139,849	145,311	150,922	0	139,703	145,159	150,765	156,579
Business rates income and grants	45,981	46,915	47,630	48,355	0	48,529	49,204	49,928	50,662
Government grants	21,037	25,061	23,007	23,007	0	25,165	23,117	23,173	23,231
Other	3,905	0	0	0	0	-1,039	0	0	0
	202,766	211,825	215,948	222,284	0	212,358	217,480	223,866	230,472

Movement between February and July 2023

533 1,532 1,581 230,472

MTFP income and funding assumptions



Spending pressures and estimated cost increases

	Budget	Future MTFP Projections - February 2023				Future MTFP Projections - July 2023			
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Inflationary impacts and council-wide	10,818	4,574	3,017	3,046	0	5,738	4,253	4,431	4,660
Capital and financing costs	-1,336	3,411	1,930	1,610	0	2,359	3,444	1,341	1,184
Adult social care	12,371	11,070	6,032	6,055	0	7,975	6,732	6,963	7,179
Childrens placements	1,745	550	550	550	0	1,620	658	664	670
Other children's costs	684	-62	0	0	0	1,035	188	-105	-40
Waste related services	4,143	305	305	305	0	3,027	540	540	540
Home to school transport services	2,366	350	350	350	0	590	500	500	500
Place - inflation on other contracts	384	170	170	170	0	380	177	177	177
Place - capacity with services	0	300	0	0	0	461	766	389	-75
Place - other	758	-34	-81	745	0	93	-81	1	655
Public health	0	0	0	0	0	22	115	0	0
Corporate - inflation	1,848	552	574	597	0	1,964	938	906	953
Corporate - income short-falls	0	370	995	420	0	962	700	100	100
Corporate - other	315	125	180	64	0	597	209	-75	0
	34,096	21,681	14,022	13,912	0	26,823	19,139	15,832	16,503

Movement between February and July 2023

5,142 5,117 1,920 16,503