

Cabinet

Supplementary Information



Date: Tuesday, 4 October 2022

Time: 4.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

16. Medium Term Financial Plan and Capital Strategy

(Pages 2 - 9)

Please find attached Annex 3 to the report

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Date: Thursday, 29 September 2022



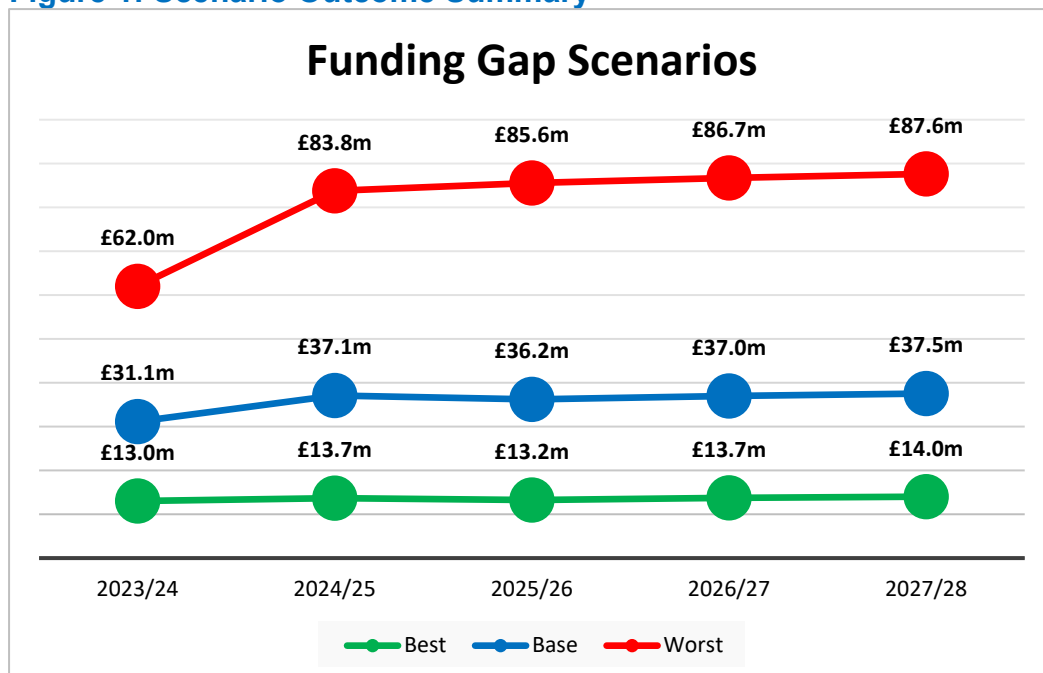
Medium Term Financial Plan 2023/24 – 2027/28

Annex 3: Scenario Modelling and Sensitivity Analysis

1. General Fund Scenarios

- 1.1 We are in a period of unprecedented economic uncertainty which is having a significant impact on the ability to forecast with accuracy, and in reality with the scale and volatility of the current climate, the only certainty we have is that this reported financial position will be subject to change.
- 1.2 Owing to uncertainty arising from the economic environment, and from the lack of clarity about what the government’s plans for local government funding will mean for the Council, financial projections have been prepared for three different scenarios, as follows:
 - **Base-case scenario** – refers to the typical, realistic or most likely scenario.
 - **Best-case scenario** – refers to the most favourable or optimistic projected outcome.
 - **Worst-case scenario** – refers to the most extreme situation that can happen if things don’t go as planned.
- 1.3 The budget approved by Council in March 2022 achieved a balanced budget across each of the financial years and as such the changes that are outlined in the scenarios are in addition to the provisions made in the budget for 2023/24 to 2026/27 (as outlined in the main body of the MTFP report (Table 4: Previous Summary of General Fund Revenue Budget for the MTFP Period)).
- 1.4 The scenarios assess the effect of changing all the input variables at the same time and determine the different possible events that could occur in the future. We have also examined the effect of changing just one variable at a time and assessed which of the variables our funding gap is particularly sensitive to.
- 1.5 This approach produces a range of funding gap outcome scenarios as set out below, with peak funding gaps at the end of the MTFP period ranging from £14.0 million to £87.6 million of which £13.0 million to £62.0 million is applicable to the 2023/24 financial year.

Figure 1: Scenario Outcome Summary



2. Base Case

- 2.1 We have aimed to take a prudent approach in arriving at a 'base' case which indicates a peak funding gap of £37.5 million over the MTFP period with £31.1 million in 2023/24.
- 2.2 This 'base' case has been set out in the MTFP report at Table 9 and is here again below for ease of reference.

Table 1: Base Case Indicative Funding Gap

2022/23 £m	Original Budget	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	-0.7%	428.235	437.167	447.096	458.379	458.507
Recurrent Pressures							
2022/23 £m	Recurrent 2022/23 Pressure	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
25.810	Service Pressures	100%	25.810	25.810	25.810	25.810	25.810
Emerging Pressure							
Emerging Pressures			2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Corporate Emerging Pressures							
	Pay Award & H&SC Levy	1.5%	3.723	5.293	5.815	6.350	6.713
	Inflation & Levies	2.0%	8.250	12.359	10.379	10.399	10.420
	Capital Financing	4.0%	0.807	1.770	2.454	2.782	3.064
	Total Corporate Pressures		12.780	19.422	18.648	19.532	20.197
	Total Pressures		38.590	45.232	44.458	45.342	46.007
	Indicative Budget Requirement		466.825	482.399	491.554	503.721	504.514
2022/23 £m	Core Funding	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	-0.7%	428.235	437.167	447.096	458.379	458.507
Funding Changes							
0.000	2021/22 Collection Fund Outturn	100%	(0.616)	0.000	0.000	0.000	0.000
2.964	Business Rates Multiplier	45%	2.430	2.593	2.644	2.697	2.751
11.276	Additional Grants (One off's)	50%	5.638	2.819	2.819	2.819	2.819
0.000	Council Tax Second Home Premi	100%	0.000	2.735	2.790	2.845	2.902
14.240	Total Additional Core Funding	0%	7.452	8.148	8.253	8.362	8.472
	Indicative Core Funding		435.687	445.315	455.349	466.741	466.979
	Base Case Funding Gap		31.137	37.084	36.205	36.980	37.535
	Service Risks		0.000	0.000	0.000	0.000	0.000

- 2.3 This is the realistic scenario, with the key driver reflecting the value of the 2022/23 pressures which are not forecasted to be mitigated in an ongoing sustainable manner and as such are carried forward into 2023/24. This scenario also contains funding assumptions in relation to funding previously advised as one-off, that present risks, therefore in addition to this funding gap, headroom should be considered to provide some agility for change.

3. Best Case

- 3.1 If we assume the best possible outcome in the case of each of these variable factors, we produce a 'best' case scenario, which indicates a peak funding gap of £14.0 million over the MTFP period, with £13.0 million in 2023/24. This is set out in Table 2 below. It is important to state that many of the key factors are outside the Council's control, notably a favourable core and or specific funding equalisation approach, increasing the government funding allocation for the Council.

Table 2: Best Case Indicative Funding Gap

2022/23 £m	Original Budget	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	-0.7%	428.235	437.167	447.096	458.379	458.507
Recurrent Pressures							
2022/23 £m	Recurrent 2022/23 Pressure	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
25.810	Service Pressures	80%	20.648	20.648	20.648	20.648	20.648
Emerging Pressure							
Emerging Pressures			2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Corporate Emerging Pressures							
	Pay Award & H&SC Levy	0.75%	3.138	3.480	3.830	4.190	4.372
	Inflation & Levies	1.00%	5.150	4.154	3.159	3.163	3.167
	Capital Financing	2.50%	0.673	1.250	1.661	1.989	2.271
	Total Corporate Pressures		8.961	8.885	8.650	9.341	9.810
	Total Pressures		29.609	29.533	29.298	29.989	30.458
	Indicative Budget Requirement		457.844	466.700	476.394	488.368	488.965
2022/23 £m	Core Funding	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	0.5	428.235	437.167	447.096	458.379	458.507
Funding Changes							
0.000	2021/22 Collection Fund Outturn	120%	(0.739)	0.000	0.000	0.000	0.000
2.964	Business Rates Multiplier	90%	4.919	5.018	5.118	5.221	5.325
11.276	Additional Grants (One off's)	110%	12.404	6.202	6.202	6.202	6.202
0.000	Council Tax Second Home Premiu	170%	0.000	4.640	4.732	4.827	4.923
14.240	Total Additional Core Funding		16.584	15.860	16.052	16.249	16.449
	Indicative Core Funding		444.819	453.027	463.148	474.628	474.956
	Best Case Funding Gap		13.025	13.673	13.246	13.740	14.008
	Service Risks		0.000	0.000	0.000	0.000	0.000

4. Worst Case

- 4.1 If we assume the worst possible outcome in the case of each of the key variable factors which impact the Council's financial performance we produce a 'worst' case view. This is set out in Table 3 below. It indicates a peak funding gap of £87.6 million over the MTFP period

with £62.0 million in 2023/24. This scenario assumes high inflation levels, a poor financial settlement and claw back of the grant allocations for the Health & Social Care Levy following the reversal of the scheme.

- 4.2 This worst case scenario includes a provisional amount of £9 million (flat across all years) for additional service risks such as those outlined in the MTFP report (at paragraph 7.18 onwards). Some of the risks identified are considered duplication of the carried forward service pressures, have recovery actions which are seeking to address the specific issue and or require further deep dives and due diligence to quantify the unavoidable exposure.

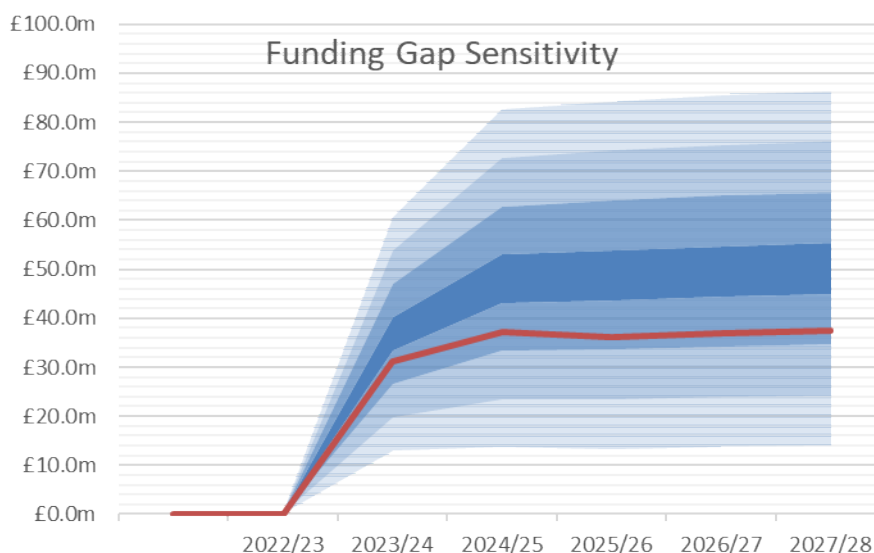
Table 3: Worst Case Indicative Funding Gap

2022/23 £m	Original Budget	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	-0.7%	428.235	437.167	447.096	458.379	458.507
Recurrent Pressures							
2022/23 £m	Recurrent 2022/23 Pressure	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
25.810	Service Pressures	135%	34.810	34.810	34.810	34.810	34.810
Emerging Pressure							
	Emerging Pressures		2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
	Corporate Emerging Pressures						
	Pay Award & H&SC Levy	2.5%	7.712	13.839	14.578	15.335	15.926
	Inflation & Levies	7.0%	21.929	37.348	37.373	37.397	37.423
	Capital Financing	4.0%	1.076	2.617	3.712	4.149	4.525
	Total Corporate Pressures		30.716	53.804	55.662	56.881	57.873
	Total Pressures		65.527	88.614	90.472	91.691	92.683
	Indicative Budget Requirement		493.762	525.781	537.568	550.070	551.190
2022/23 £m	Core Funding	Variation %	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
431.052	March 2022 Forecast	-0.7%	428.235	437.167	447.096	458.379	458.507
Funding Changes							
0.000	2021/22 Collection Fund Outturn	80%	(0.493)	0.000	0.000	0.000	0.000
2.964	Business Rates Multiplier	22%	1.215	1.240	1.264	1.290	1.315
11.276	Additional Grants (One off's)	25%	2.819	1.410	1.410	1.410	1.410
0.000	Council Tax Second Home Premium	80%	0.000	2.188	2.232	2.276	2.322
14.240	Total Additional Core Funding	0%	3.541	4.837	4.906	4.975	5.046
	Indicative Core Funding		431.776	442.004	452.002	463.354	463.553
	Worst Case Funding Gap		61.985	83.777	85.566	86.716	87.637
	Service Risks -Inc in Service Pressures		9.000	9.000	9.000	9.000	9.000

5. Funding Gap Sensitivities

- 5.1 The wide range between best, base and worst case impact on the funding gap is clearly shown in the chart below where the red line shows the 'base' case which it is recommended be considered at this time for budget planning purposes.

Figure 2: Funding Gap Sensitivity



- 5.2 Sensitivity analysis considers the key cost drivers as assumed for the above scenarios and their respective financial impact. It should be understood that each % assumption is over and above (incremental) to that which was included in the prior year's MTFP and Budget. **Inflation is the most significant driver which alone, if assumed at an average 7% above assumptions included for the base case, accounts for an additional circa £27 million over the MTFP timeframe.** The high levels of uncertainty around rising inflation rates pose a financial risk to a range of services across the Council, which include, but are not exclusive to, the following:
- Adult social care services - including higher fees to care providers offsetting rising costs of running settings and pay awards
 - Children's social care - increased placement costs such as Independent Fostering Agencies, Fostering, Residence Orders and Special Guardianship
 - Energy price increases beyond the recently introduced reliefs - including for streetlights and energy bills for the corporate estate
 - Rising fuel and labour costs - bus, taxi and minibus providers for areas such as Home to School and other transport services
 - Indexed linked external contracts such as PFI and waste management.
- 5.3 In addition to the above, as previously outlined, the service risks provision of £9 million is a large contributor to the sensitivity.
- 5.4 These two areas (inflation and service risk) combined account for approximately £36 million of the 2027/28 sensitivity gap. We need to consider our ability to influence these factors and level of resilience required in our budget for any areas broadly outside the Council's control.

6. Dedicated Schools Grant (DSG) Scenarios

DSG Deficit Management Plan

- 6.1 A cumulative deficit of £44.5 million is forecast at the close of 2022/23. This is mainly due to increased demand for Special Educational Needs provision within the HNB. The main cost driver is the rise in demand for Education, Health and Care plans (EHCPs) following national reforms from 2014, increasing complexity of children's needs and the rising costs of out of authority placements. The summary table below from the DSG Management Plan shows the unmitigated full year forecast position for 2022/23 as at Quarter 2 and its projected growth to a gap of £128.2 million by 2027/28.
- 6.2 The latest assessment assumes an average growth in expenditure of 33.3% since the March 22 report. As part of the Education Transformation Programme a range of cost avoidance measures and mitigations are being explored to meet the current and future needs and recovery of the High Needs Block, which currently has the biggest effect on the DSG overspend. These remain in their infancy and are covered in more detail within the DSG Mitigations report in the school forum agenda:
<https://democracy.bristol.gov.uk/ieListDocuments.aspx?CId=481&MId=10303&Ver=4>).

The working assumption is that the indicative cost avoidance measures and mitigations range from £3.0 million in 2023/24 to £12.6 million by 2027/28. We recognise that these measures are options and if supported would not be sufficient to deliver a balanced plan but are the first financial recovery step in this long-term journey.

Figure 3: DSG Management Plan Estimates and Indicative Mitigations Summary

DSG Management Plan estimates and indicative Mitigations Summary
For illustration purposes only
 As at 140922 - Period 5/Quarter 2

Overall DSG position (pre recoupment total) Income/surplus should be shown as negative	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000
Carried Forward Unmitigated deficit	£24,650	£44,556	£63,177	£80,871	£98,579	£114,732
Total expenditure	£443,435	£460,570	£464,887	£467,391	£468,399	£468,399
Total income	£423,529	£441,948	£447,193	£449,683	£452,247	£454,888
Funding Gap	£44,556	£63,177	£80,871	£98,579	£114,732	£128,242
Carried Forward Indicative proposals			-£3,075	£12,040	£23,512	£36,086
Annual Indicative Proposed Mitigations	£0	£3,075	£8,965	£11,473	£12,574	£12,574
Funding Gap after mitigations applied	£44,556	£66,251	£68,832	£75,067	£78,645	£79,582

Footnote: *The funding assumptions may vary as a result of the changes in Government, Cabinet and the SEND Green Paper and the indicative cost avoidance measures and mitigations which are estimates only and may be subject to change following consultation and further due diligence.*

- 6.3 The forecast presented above contains risks and challenges, examples of which are outlined below:
- Ofsted re-inspection may highlight new areas to address (as inspection framework is tightened and strengthened)

- Some proposed mitigations may not deliver a financial benefit and extensive growth within this area may outweigh the financial benefit of the mitigations that are implemented
- Higher than expected increase in Education Health and Care plans
- Cost of living crisis.

6.4 The opportunities within the current system are summarised below:

- Delivering Best Value (DBV) - the Council has been accelerated to Tranche 1 of the programme and the engagement has commenced. This means that the DfE will provide support and challenge to the local authority on the plan and more specifically the indicative mitigations
- Proactive Schools Forum engagement via Early Years and High Needs working groups and key stakeholders
- SEND reviews delivers policy reform with positive impact and needs based funding methodologies.

6.5 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, allow authorities to hold DSG deficits in a separate reserve in the authorities accounts but this accounting treatment is only allowed up to and including the accounts for 2022/23. Due to a number of authorities still holding large DSG deficits, further guidance is expected from the Department for Education (DfE) regarding how DSG deficits should be treated after 2022/23.