1. Introduction

1.1. This report provides a medium-term financial outlook for the council, reviewing and highlighting the significant risks, issues and uncertainties around the current budget assumptions within the Medium Term Financial Plan (MTFP) and Capital Strategy, to provide the context around the budget strategy for the coming financial year.

1.2. The MTFP and Capital Strategy are key parts of the council's Policy and Budget Framework and financial planning process, which set out the council's strategic approach to the management of its finances and provide a framework within which delivery of the council's priorities will be progressed. They are refreshed annually to ensure they remain relevant and accurate and presented to Council in the autumn for approval. In line with good practice and given the continued uncertainty in the financial and economic environment, the financial planning assumptions are kept under regular review, this early financial outlook is a snap-shot of that review provided for members.

1.3. The medium-term financial outlook is reviewed regularly to be responsive to changing context including national factors, local priorities and conditions, and it takes account of emerging pressures, risks and opportunities to the council's financial position. It provides a forecast outlook to aid timely robust and methodical planning and allows us to identify and respond to issues early. It also seeks to protect the financial health of the council, considering the appropriate level of reserves that the council holds to mitigate current and longer-term risks and ensure sustainable services.

1.4. It must be recognised that the economic climate remains uncertain, with inflation and interest rates remaining stubbornly high, and it therefore remains extremely difficult to make a full, definitive and comprehensive assessment of the ongoing financial impact on the council. As such, the figures in this report are based upon best estimates and forecasts and will therefore be subject to change. However, the significance of the potential financial challenge cannot be underestimated and over time, the council needs to continue with its development of measures and strategy to maintain a commitment to strong financial resilience and sustainability.

1.5. The medium-term outlook encompasses the following:

- New legislative and policy change
- Recommendations for Cabinet to note
- Additional inflationary pressures
- Changes in business rates and council tax funding

1.6. The medium-term financial outlook was last fully reviewed and approved by Council in February 2023 as part of the annual budget setting cycle. Budgets were balanced over the first three years of the medium term, with a budget gap remaining for the latter two years at that time. The following fundamental assumptions were embedded within the last review:

- Net planned savings of £43.9 million are delivered on a permanent / recurrent basis over the 5 year term.
- Emerging pressures are managed within directorate cash limited budgets as set by Council.

1.7. Since February 2023 there have been changes in the external context, in particular the continuity of high levels of inflation and the cost of living crisis, along with increased interest rates, that further exacerbate the challenges being experienced from the fundamental assumptions above. As a result, whilst there is significant work underway in terms of transformation and the underlying position on forecast outturn is that in 2023/24 the budget will be maintained, the council's financial position is outlining risk to delivery of the budget amounting to £15.2 million. This risk is reflected within the worst-case scenario outlined in the financial outlook.

1.8. The outlook includes an update of estimates of assumptions and the potential recurrent impact of the 2023/24 financial position and emerging risks. At this stage, the figures do not include any additional savings or mitigations for the future years over and above those previously built into the MTFP. Work to identify additional transformation, efficiencies and savings will be undertaken in the coming months alongside further MTFP update.

- The refreshed outlook indicates a potential range of a further £8.97 million of cost pressures in 2024/25 to £5.94 million in 2028/29, being above the budget gap in the latter years outlined in the budget report to Council in February 2023.
- The Council anticipates an in year drop in funding for 2024/25, however there follows anticipated increases in available funding of £1.912 million from 2025-26.
- This results in a net increase in resource requirement of £9.931 million from 2024/25 and by 2028/29 a likely revised budget gap of £24.725 million in 2028/29.

1.9. The financial outlook does not constitute a formal budget or financial framework. It does provide an early indication of the evolving financial projections and challenges ahead, reinforcing the need for continued strong financial management and early action within the financial planning cycle to ensure a financially balanced MTFP. A full Medium-Term Financial Plan and Capital Strategy will be presented to Council in the autumn, setting out the financial strategy to manage the council's financial resources, and ensure we continue to balance the 2024/25 budget.

2. Background Context

2.1. Council approved the current budget and five-year outlook in February 2023. In the four months since, the rate and pace of change in external events, particularly the cost-of-living crisis, continue to influence the economic context upon which the council bases its planning.

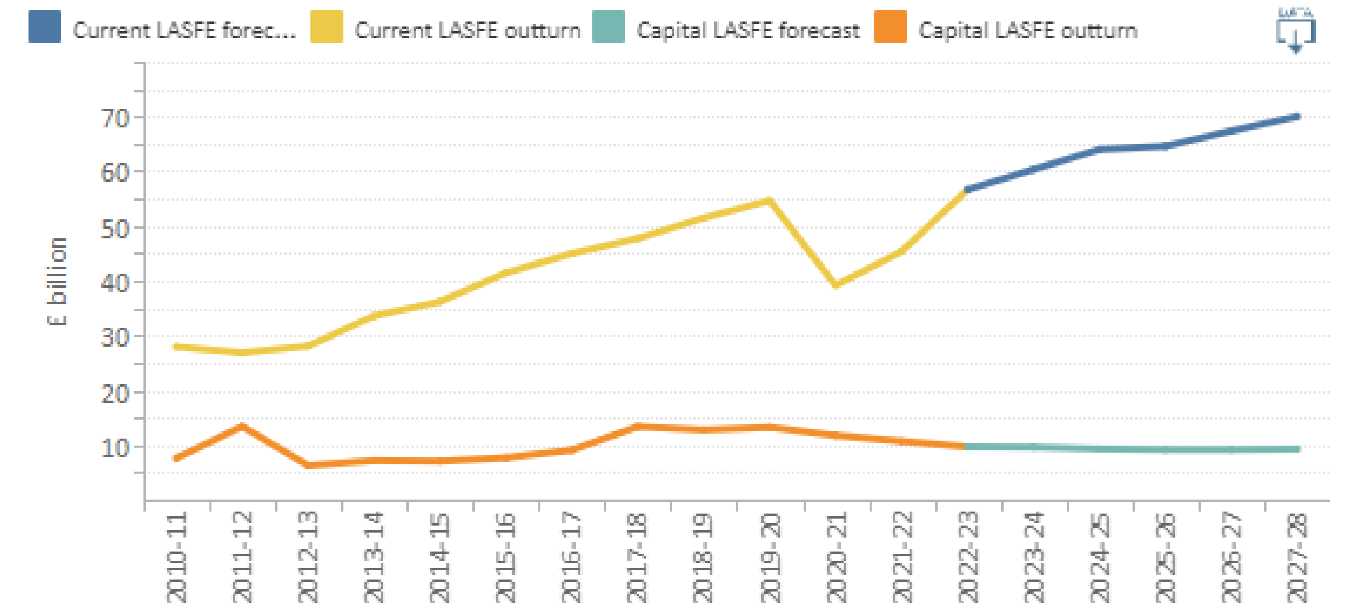
2.2. Inflationary pressures continue to be high and are not decreasing at the pace expected, with the council now operating in a higher than typical inflationary environment, albeit with signs that inflation is starting to ease (April 2023, 8.7%, March 2023, 10.1%).

2.3. On 15 March 2023 the Chancellor presented his Spring Budget before parliament. The spring announcement provided for a number of new measures including employment support, additional road funding and an easing of borrowing rates for housing capital projects. The statement was an update with limited fiscal (spending and tax) policies included.

2.4. In the weeks following the Spring Budget the Bank of England's Monetary Policy Committee raised interest rates in May and June, rising from 4.25% to 4.5% and now 5%. These base rate rises feed through into an overall increase in government spending over the medium term driven by the rising cost of debt interest costs but also increased costs driven by a mixed picture on inflation.

2.5. Figure 1 shows the projection of local authority spending to 2027/28. The **Error! Reference source not found.**projection outlines an increasing day-to-day revenue spend projection and a broadly cash flat capital spend projection over the medium term.

Figure 1: Current and Capital Local Authority Self Financed Expenditure (LASFE)



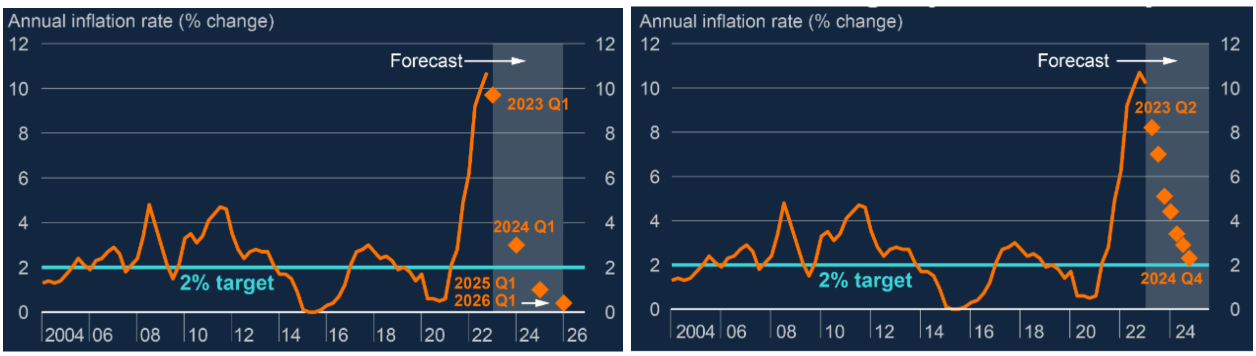
Source: HMT. OBR

Economic Context

2.6. Inflation remains of significant impact to the general economic context. Inflation has a direct impact on the cost of goods and services delivered by the council but also the cost-of-living crisis impacts on citizens who rely on the services provided by the council.

2.7. As at February 2023 the Bank of England were predicting a sharp decline in inflation over the coming year, with <2% inflation by Q1 of 2025. The more recent projections as at May 2023 continue to predict inflation will decrease in the coming year significantly, although reflect that this journey has started at a slower pace with a slightly greater than 2% level anticipated by Q4 of 2024.

Figure 2: February and May 2023 inflationary projects from the Bank of England Monetary Policy Reports



Source: Bank of England Monetary Policy reports

2.8. The drop in inflation to 8.7% (from 10.1%) left inflation still at the higher end of market expectations. Whilst electricity and gas prices contributed 1.42 percentage points to the fall in annual inflation in April 2023, food and non-alcoholic beverage prices continued to rise in April. However, the annual inflation rate of food and non-alcoholic beverages remain broadly unchanged with a minor movement, from

19.2% in the year to March 2023, to 19.1% in the year to April 2023. Core CPI (excluding energy, food, alcohol and tobacco) rose to 6.8% in the 12 months to April 2023, up from 6.2% in March, which is the highest rate since March 1992, and the CPI services annual rate rose from 6.6% to 6.9%.

2.9. Set amongst the pattern of rising non pay costs is the economic impact of labour market pressures. Shortage of supply in labour has an impact through council services as managers aim to deliver outcomes with more expensive and fewer skilled and non-skilled employees in the market. The council is not alone in finding recruitment and retention of staff challenging, with pressures across social care.

2.10. In an attempt to tackle the high level of inflation, central banks have increased interest rates, seeking to balance the desire to reduce inflation with not impacting economic growth and causing recession. Market reaction to this data led to increased gilt yields and a forecast peak of bank rates between 5.25% and 5.5%, with little prospect of those rates coming down before the second quarter of 2023/24.

3. New Legislative and Policy Change

3.1. The King's Speech, which will set out the governments' programme of legislation, has been delayed until the autumn of 2023. The current parliamentary session has been extended to enable the previous legislative programme to be progressed.

3.2. No changes have yet been announced on several of the proposals that were included in the July 2022 Outlook, while some have been updated. The planned legislation will have an impact on the council, which needs to be considered in terms of business planning and financial planning.

Schools Bill

3.3. This no longer coming forward in this session. Government is continuing to implement measures in the schools' white paper, published in March 2022, that did not require legislation e.g. minimum week length, higher targets.

Strikes (Minimum Service Levels) Bill

3.4. This is in final stages of progression and makes provision for minimum service levels in connection with the taking by trade unions of strike action relating to certain services. Sectors include health, education, fire and rescue, and transport.

Illegal Migration Bill

3.5. Currently going through parliament. Potential impacts on councils of the bill include accommodation, support and long-term planning for unaccompanied children, and changes to the current asylum system including powers of detention and consultation on the resettlement cap.

Renters (Reform) Bill

3.6. This has been published and is at early stages of the parliamentary process. Changes would introduce new enforcement powers and duties for councils including abolition of section 21 'no fault' evictions and a move to periodic tenancies; a tenant appeal process for above-market rent increases; a new Private Rented Sector Ombudsman; and a new Privately Rented Property Portal to help landlords understand their legal obligations and demonstrate compliance.

Supported Housing (Regulatory Oversight) Bill

3.7. This is in the final stages of process and is regarding the regulation of supported exempt accommodation. The LGA has raised concerns about the potential capacity challenges for councils if new responsibilities are introduced. Resource will need to be given to a licensing scheme and enforcement of new National Supported Housing Standards.

Social Housing Regulation Bill

3.8. This makes provision for the regulation of social housing around the terms of approved schemes for the investigation of housing complaints. It will enable tenants to better hold their landlords to account on consumer issues. The bill is in final stages and awaiting Royal Assent.

Procurement Bill

3.9. In remaining stages in the House of Commons. Government has indicated that the new procurement regime will go live in October 2024 and will consult on secondary legislation that will sit under the Procurement Act, once on statute.

Retained EU Law (Revocation and Reform) Bill

3.10. This is in final stages in parliament. The bill will enable government to implement policies in its Benefits of Brexit report (Jan 2022) allowing it to repeal or assimilate retained EU law (REUL) and remove its supremacy in the UK legal system by the end of 2023, including its usage by courts and SMEs.

Non-Domestic Rating Bill

3.11. This has been introduced and completed its passage through the Commons and will now go to the Lords. This bill should make the process of getting information from ratepayers easier, supporting business rates revaluations once every three years.

Draft Mental Health Bill

3.12. The joint committee on the bill published its report in January 2023 that included a recommendation for strengthened duties for Integrated Care Boards and local authorities, to ensure adequate supply of community services for people with learning disabilities and autistic people to avoid long-term detention. The final bill has not yet been published and unlikely to see parliamentary time this session.

Draft Audit Reform Bill

3.13. No set date for publication. The intent is to establish new statutory regulator - the Audit, Reporting and Governance Authority, that will protect and promote the interests of investors, other users of corporate reporting and the wider public interest. It is highly unlikely to feature within the session.

Energy Bill

3.14. In Committee Stage in Commons. Includes proposals for regulation of the heat network market and heat network zoning; creation of a Heat Network Authority; and creation of Future System Operator, an independent and first-of-a-kind body to coordinate and ensure strategic planning across the gas and electricity sector.

Levelling Up and Regeneration Bill

3.15. This is progressing through the final stages in parliament. Proposals include risk-mitigation measures potentially giving the Secretary of State powers to intervene in a local authority, and a breadth of measures around reforms of the planning system as well as new powers for local authorities around commercial and residential empty premises.

Council Tax Premium on Second Homes

3.16. The government is proposing that billing authorities have the power to charge a 100% premium on second homes or empty dwellings, Full Council has already approved the change. The outcome of implementation could be expected to increase the Council Tax funding available to the council by £4.6 million. The new bill can apply the second home charge in 12 months rather than two years. Implementation date will likely be April 2025 subject to the final laying of legislation. There is proposed to be a 12 month notice period to implement the policy of an earlier levying of the second home charge, although this too is subject to the actual details in the legislation. Medium term financial planning assumptions included implementation from April 2024.

Planning

3.17. In 2022 planning system reforms were expected with the aim that "more homes can be built" .. "simplifying and standardising the process for local plans." To improve capacity in the planning system, planning fees will be increased for "minor and major applications by 35% and 25% respectively, subject to consultation".

3.18. The reforms further propose a new "locally set, non-negotiable levy to deliver infrastructure" aimed at capturing more of the financial value created by development of the infrastructure communities needs. Thresholds and rates will be set in local charging schedules. The new infrastructure levy is expected to largely replace the current system of Community Infrastructure Levy (CIL) and section 106 payments. This should result in greater certainty around costs for developers. Although still not implemented, plans remain in place for parliament to move forward.

White and Green Papers and Other Policy Measures

3.19. White (information report or proposals for future legislation) and Green (preliminary report of government proposals for discussion) papers are often published, seeking views before proceeding with formal legislation. It is important that the council is aware of and feeds into these as well as other policy measures. Two major publications impacting areas of high financial risk to the council relate to special educational needs and disabilities services and adult social care.

People at the Heart of Care: Adult Social Care Reform White Paper

3.20. The government remains committed to a 10-year vision for adult social care as set out in the white paper published in December 2021. The paper is proposing to reform the following four key charging elements:

- increased assessments, reviews, and care management responsibilities
- increase in both the lower and higher thresholds which affect when the public sector starts to pay for care and how much it contributes
- the introduction of the cap which limits the amount that individuals might contribute towards their care
- that self-funders can ask the local authority to commission care at local authority fee levels on their behalf

3.21. A 'Next steps to put People at the Heart of Care' plan has now been published (April 2023), which details continued transformation of the adult social care system in England through:

- improved access to care and support
- recognising skills for careers in care
- driving digitisation and technology adoption
- data and local authority oversight
- support to enable people to remain independent at home
- encouraging innovation and improvement
- joining up services to support people and carers

3.22. The council continues actively working to understand the anticipated impact of the care charging reforms on both the council and our local area provider market and is planning for successful implementation in October 2023.

SEND

3.23. On 29 March 2022, the government published a special educational needs and disabilities (SEND) green paper and consultation called “SEND Review: right support, right place, right time”. Following consultation and feedback a Special Educational Needs and Disabilities (SEND) and Alternative Provision (AP) Improvement Plan was published in March 2023, setting out the next steps for reform.

3.24. The improvement plan sets out a system with new evidence-based national standards to improve early identification of needs and intervention and will include aspects such as standardised EHCPs. By the end of 2025 it is expected that the first three practice guidance will have been issued.

Extended Producer Responsibility (EPR) for Packaging

3.25. The EPR involves a major reform to Waste Management. Producers, mostly business paying into a scheme involving incentives for packaging reforms resulting in less waste and recycling. The EPR represents a potential new funding stream for councils with lower tier responsibilities including Bristol.

4. Medium Term Financial Outlook

4.1. The budget approved by council in February 2023 outlined a 5-year position that, while balanced in the first three years through reserves contributions, projected a gap by 2026/27 of £8.1 million, rising to £9.8 million by 2027/28.

4.2. This section summarises the impact of changes to previously agreed assumptions in the five-year financial outlook as outlined in the budget set by Full Council in February 2023. For avoidance of doubt, this includes 100% delivery of all previously agreed savings over the medium term (net of optimism bias but including the carried forward legacy savings from previous years that have previously been mitigated on a non-recurrent basis); increases in funding where early indications are available; and inflation and emerging risks already included within the quarter 1 financial report.

4.3. The medium-term position since Budget Council is less favourable predominantly because of inflation. Review of options to mitigate and review of recurrent further savings and efficiencies is now to be undertaken to manage these emerging risks, therefore the position outlined in this outlook will be impacted by this process in future months.

4.4. A note of caution should be applied to many of the assumptions and economic forecasts because projections into the medium or longer term are speculative. It was assumed interest rates would peak at 4.5% but the MPC announcement of a 5% base rate on 22 June 2023 has already overshot that benchmark. This outlook base case outlined is assessed against the best information that is available at the current time, however, by nature of being an early indication contains significant uncertainty and is subject to volatility. There is risk and opportunity inherent in the assumptions taken to build this projection and further clarity in the coming months will inform a full sensitivity review of these projections and ultimately the Medium-Term Financial Planning.

4.5. Scenario testing, applied to the July Outlook, modelled ‘base case’, ‘best case’ and ‘worst case’ scenarios indicate that there will be a probable deficit in 2024/25 and onwards to 2028/29. The ‘best case’ from 2024/25 up to 2028/29 presents an emerging risk of between £3 million to £12.777 million of quantified risk whilst the ‘base case’ maintains that from 2024/25 there is a quantified risk of £9.931 million rising to £24.725 million by 2028/29. The ‘worst case’ scenario points to a £21.031 million risk from 2024/25 increasing to £35.825 million by 2028/29. These scenarios will help planning and focus the council on the key variables to track, and where unfavourable, mitigations can be put in place to bring these variables in line.

4.6. Forecasts at P2/Q1 2023/24, is broadly in line with budget, however there are signs the emerging risks identified in the base case (estimated to be £9.931 million), predominantly in Adults and Children's services where demand and inflation are presenting potential pressures, will materialise. At this point in the year this emerging risk requires further validation and investigation, it is therefore assumed that this will be closely reviewed and managed through the transformation programmes and further mitigations. In terms of a worst-case scenario on financial outlook this could present a further recurrent pressure into the 5 year MTFP period.

4.7. The financial outlook based on the presently available information and other assumptions (excluding reserves, for example, allowing clearer illustration of the gap) is therefore that the council could face a £9.931 million budget gap in 2024/25, rising to £24.725 million by 2028/29.

Table 1: Movement in forecast budget gap (£m)

2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
(3.929)	February Budget	4.156	(8.863)	(8.131)	(9.777)	(9.777)
3.929	Contribution to Reserves	(4.156)	8.863			
(0.000)	**Forecast gap**	**(0.000)**	**-**	**(8.131)**	**(9.777)**	**(9.777)**
-	Change in Funding	(0.960)	1.912	1.912	1.912	1.950
-	Changes in Costs	(8.971)	(7.322)	(6.845)	(6.598)	(5.940)
(0.000)	**Total July 2023 Forecast Gap**	**(9.931)**	**(5.410)**	**(21.195)**	**(24.240)**	**(24.725)**

4.8. The February Budget includes a position with has planned use of reserves (£4.1 million) in 2024/25 and £8.8 million in 2025/26 which if adjusted can support council balances in 2024/25 bringing the gap down to £1.1 million for one year. The effect however will be to increase the forecast gap in 2025/26 to £14.273 million. The table above excludes these reserves movements.

General Fund - Indicative Available Funding

4.9. The forecast level of overall general fund resources available to the council, including retained business rates, central grants, and council tax income, over the next financial year is projected to be £505.13 million (this figure includes a deterioration of £0.96 million in funding since the February forecast) and is detailed in **Error! Reference source not found.** below.

4.10. The forecast funding is based on assumptions of changes in residential properties in Bristol and forecast demographic shifts. It also makes assumptions about specific increases in council tax rate or decisions on discounts and premiums and it is important to note it sets out available funding, however actual funding available will depend on decisions taken as part of the annual budget setting process.

4.11. The changes to assumptions since the budget in relation to each of the funding categories are outlined in the subsequent sections.

Table 2: Funding available - changes since February 2023 (£m)

2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
479.594	February 2023 Forecast Core Funding	506.090	502.424	514.914	527.009	537.549
479.594	July 2023 Forecast	505.130	504.336	516.826	528.921	539.499
0.00	**Changes since March 2023**	(0.960)	**1.91**	**1.91**	**1.91**	**1.95**
	Of which:					
0.0	Collection Fund	0.00	0.0	0.0	0.0	0.0
0.0	Council Tax Second Home Premium	(2.872)	0.0	0.0	0.0	0.0
0.0	Business Rates Multiplier	0.15	0.15	0.15	0.15	0.15
0.0	Additional Grants	1.76	1.76	1.76	1.76	1.76

Council Tax Reduction Scheme (CTRS) – Working Age

4.12. There are various discounts and exemptions to council tax such as single person discount, student exemptions and the Local Council Tax Reduction Scheme. Most of these are set at a national level, with the exception of the Local Council Tax Reduction Scheme. The pensioner element of this scheme is set nationally and replicates the level of support under Council Tax benefit (ie the lowest income pensioners do not pay any council tax). Local authorities are required to design their own schemes for low income council taxpayers of working age and for Bristol this broadly replicates that for pensioners, in that those on the lowest income do not pay council tax.

4.13. Council estimates of the cost of the scheme are linked to unemployment trends. Long term forecasts for unemployment remain broadly consistent with current levels and the current assumptions in the budget remain broadly constant for 2024/25 with the current scheme in place. In the context of a council tax uplift of 5% it might have been expected that costs would increase, however, despite this, current data hasn't shown the same lift in CTRS. Costs will continue to be monitored.

4.14. The CTRS is currently under review in line with the approved February budget. This outlook continues to apply the principles outlined in that approval, noting that this review requires consultation.

Business Rates Multiplier and Settlement Funding

4.15. Local authorities have retained 50% of business rates real terms changes in business rates revenue (growth) through the business rates retention scheme since 2013/14. The government's original intention was to reset local authority baselines (the target level of business rates it expects each local authority to collect each year) in 2020. In 2015, the government set out ambitions to allow local authorities to retain 100% of business rates growth by 2020 and several pilots were established which are now running as routine, including for the West of England Combined Authority, which includes Bristol City Council.

4.16. In line with the principles of business rates retention, business rates for business are assumed neutral. With the Council's business rate multiplier increasing in line with inflation. An Under-Indexing Multiplier Grant would be applied to ensure that local authorities' shares of income are not impacted by changes. The current estimates in the MTFP provides for an improvement in estimated business rates from 2024/25 over the medium term, however it is also assumed any compensation for ratepayers frozen business rates to the Council remains also index linked.

4.17. The exact position remains uncertain, and the council is carrying significant risks in relation to business rates. From the changes in the economic context there is particularly significant uncertainty regarding business rates appeals. The council provides annually a share of its net business rates to cover appeals, a potential national benchmark could be 3.3% and might be considered for future years.

4.18. The collection fund outturn for 2022/23 shows local tax income surpluses were less than estimated in the budget, driven by treatment of S31 grant funding. The actual movement from the budget estimates for 2023/24 surpluses will impact on the 2024/25 budget as they are included in the collection fund estimates for 2024/25 later in the year.

Table 3: Breakdown of carry forward deficit from 22/23 collection fund (£m)

	Council Tax	Business Rates	Total
Movement in 22/23 Outturn	(0.076)	3.083	3.007

4.19. At this point the collection fund for 2023/24 is assumed to be balanced, however there is a risk there could be a further deficit from 2023/24 collection fund.

Grant Funding

4.20. The December 2022 Provisional Government Funding Settlement confirmed arrangements for devolution business rates retention pilots such as Bristol's to continue; an increase of 1% to the council tax referendum threshold; social care precept of 2% and a further period of social care grants until reforms are implemented and councils await plans on future local government grant income. Indications are that local government funding reforms such as Fair Funding (aimed at designing a new system for allocating funding between councils via a renewed methodology) and business rates reviews (100% to 75% retention and wider reforms of the business rates system) will be introduced for 2025/26. These reforms will set new funding baselines for every authority and present a significant risk to future funding for the council's financial planning.

4.21. The 2023/24 budget assumed £5.7 million of non ring-fenced service grants as one-off. Due to delays in local government funding reform, for 2024/25 these have been assumed in the funding available in the medium-term outlook but reduced. The New Homes Bonus is expected to cease after 2024/25. It was also announced that the lower tier services grant redistribution method would change – the revised grant for Bristol City Council is a nil allocation. The government recognises the position of the lower tier in relation to grants is to be re-considered, therefore the 2024-25 position of grant funding for lower tier authorities like Bristol will also be reviewed in the context of a possible interaction with the EPR scheme (see above).

Table 4: Breakdown of 2024/25 one-off grants

Grant Name	£'m
2023/24 Services Grant	3.932
Lower Tier Services Grant (Ended)	0
New Homes Bonus	1.599
Total	**5.561**

5. Emerging Financial Risks

Summary

5.1. The review undertaken to inform the financial outlook refresh has indicated a range of emerging general fund risks, presenting challenges which may not be readily contained within existing resources and therefore requiring mitigating action, additional funding or broader transformational interventions.

5.2. The emerging risks over the next planning period total £15.0 million as shown in **Error! Reference source not found.**. The underpinning assumptions in relation to each of the categories of emerging pressures are outlined in the subsequent sections.

Table 5: Emerging pressures(£m)

2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
483.523	March 2023 Annual Budget	501.934	511.288	523.045	536.786	547.522
483.523	July 2023 Forecast	510.905	518.610	529.890	543.384	554.252
0.0	**Changes since March 2023**	**8.97**	**7.32**	**6.84**	**6.60**	**5.94**
	Of which:					
0.0	Pay Award	1.90	1.90	1.90	1.90	1.90
0.0	Emerging risk and savings	2.74	2.74	2.74	2.74	2.74
	Additional inflation	3.00	3.00	3.00	3.00	3.00
0.0	Capital Financing	1.33	(0.32)	(0.80)	(1.04)	(1.70)

Pay Inflation

5.3. The annual budget and medium-term outlook include provision for an annual pay award/NIC capped at £9,100 (which equates to approximately 4%) plus small contingency. The current year's pay discussions are underway. The pay award for 2023/24 has not yet been finalised. Once complete the impact on budgets will be known and consequently planned for. An additional 1% increase in pay award typically results in additional costs of £1.9 million per annum. Beyond 2023/24 the outlook assumes that pay inflation reduces, returning to previous levels from 2025/26.

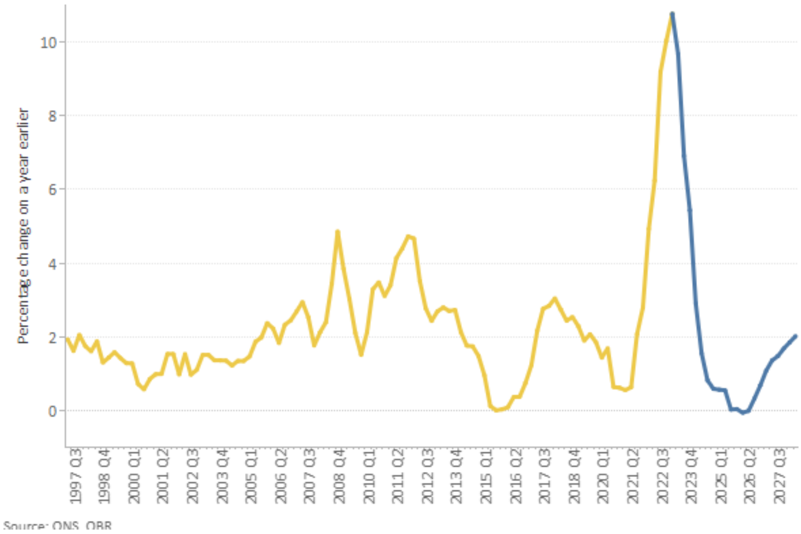
Non-Pay Inflation

5.4. Services are expected to absorb annual inflationary pressures within existing budgets. Corporately provision is made in each year to allow for material contractual inflationary cost pressures which cannot be managed within a service. An additional £2 million additional contract inflation contingency was set aside in 2023/24, the cost impact to be monitored in the year then drawn down after reconciliation.

5.5. Industry specific pressures where either there are contract commitments or evidenced industry specific inflationary pressures, such as energy, accommodation, transport, waste disposal and social care are continuously monitored.

5.6. Inflation has begun to decline but remains at higher than planned levels and higher than government had expected. This will require close monitoring during the year and further delays to inflation decreases present a further risk to the Medium-Term Financial Planning.

Figure 3: OBR forecast for CPI inflation



Savings Delivery

5.7. The savings programme agreed by Council in February 2023 included savings totalling £43.9 million over the medium term of which £26.2 million is attributed to 2023/24. In addition, £9.3 million of savings still requiring delivery were carried forward from previous years.

5.8. When the budget was set some of the savings remained at early development stage and as such a suitable optimism bias was applied. As at Q1, the value of savings at risk exceeds the value of the optimism bias, however critical focus is placed on the transformation work streams on-going to implement the savings plans and improve the proportion of 'safe' savings. As such there is both a risk and opportunity to the financial outlook dependent on the delivery of these savings which is included in the downside and upside scenarios, respectively.

5.9. The Quarter 1 financial forecast position reports savings as still planned for delivery by outturn and as such this forward look also assumes delivery of the ambitious programme, however this is a clear risk that requires continued assessment as we move through the financial year and if slippage or under delivery becomes apparent, this will present a pressure on the figures presented in this outlook for the development of the MTFP later in the financial year.

Capital Financing and Interest Rates

5.10. This time last year the Bank of England base rate was 1.25% and is now 5%. The increase of 3.75% is having a profound effect on every aspect of the economy, for individuals, for public sector entities and for business. The impact of further variations to interest rates, both in terms of investment returns and borrowing costs presents a corporate risk. Interest rate risks are managed through effective treasury management and the use of fixed rate loans where appropriate.

5.11. Figures below show the change in medium term forecasts for base interest rate and PWLB 50 year borrowing rates between December forecasts, used to inform the budget, and the latest forecasts. The increase in forecast interest rates above the previous forecasts has increased the cost of borrowing through Public Works Loan Board (PWLB) for long term borrowing, with the fixed rate for 50 year loans now resting at just under 5.5%, which is almost 1% above the previous assumptions at February Budget approval.

5.12. A key influencer of the level of planned borrowing in later years is the growing scale of the council's Capital Programme. Debt funded growth in the programme adds additional financing costs. If the growth is greater than that already assumed in the medium-term financial plan this will add additional interest costs every year and in the current environment this could step up substantially if interest rates continue to remain high. The current estimate is that financing costs remain broadly as expected given the capital programme has not at this time been expanded, to manage within the overall debt caps.

5.13. The council's capital strategy includes strict criteria around affordability, including that the capital financing costs are no more than 10% of net revenue budget in the General Fund. The position on the capital programme will require review and if necessary reprioritisation to ensure that this is maintained in the current climate of high interest rates.

5.14. From a practical standpoint the council will focus on optimising cashflow and, given the elevated level of interest rates, the council can lend balances to other local authorities or place short-dated deposits into institutions. While there is a financial benefit to the council placing deposits, with gains that contribute to the MTFP, generally this tends to be only a short-term contribution. Longer-term rates are forecast to be lower over the duration of the five-year horizon.

Adult Social Care Reform

5.15. The Adult Social Care white paper 'People at the Heart of Care' issued last year sets out the direction of travel for the government's Adult Social Care plans (a care cap, means testing update, 'Fair Cost of Care' and 'care brokerage').

5.16. There is a risk the full cost of implementing these reforms will not be fully compensated to local authorities, that funding will not reflect the full new burdens, and work is being undertaken across the sector to ensure the cost of these changes is fully understood at a local level and sufficient funding is made available. It is important to note any financial impact on the council is not modelled into the above figures as this remains uncertain.

5.17. In wider developments for Integrated Care, on June 14 2023, the government published its response to independent review of ICSs that was led by Rt Hon Patricia Hewitt. The review published its findings in April 2023. The response included themes such as autonomy and support for ICSs and finance and funding across the system

Ring Fenced Funds

Public Health (PH) Grant

5.18. Public health services are funded by a ring-fenced grant to the council which for 2024/25 is to be £36.2 million, an increase of 1% in comparison to the current year (£35.7m 2023/24). The grant is likely to continue to be subject to conditions on what it funds, including a ring-fence requiring local authorities to use the grant exclusively for public health activity which may include public health challenges arising directly or indirectly from Covid-19.

5.19. Previously, in 2021, government committed to increase the Public Health grant in real terms for the period of the spending review, however considering the significant inflationary increases it appears this is not the reality. The council plans to ensure any increased costs of services are contained within the envelope provided, however, this is particularly challenging given the increases to the NHS Agenda for Change pay, which represents a significant pressure on many of the contractual arrangements within Public Health services.

Dedicated Schools Grant (DSG)

5.20. The 2021 Spending Review committed real terms increases to education spending over the next two years. The High Needs Block received a 7.0% increase in 2023/24 and recommended future budget funding assumptions of 3% for subsequent years thereafter. Increasing inflation and number of children and young people with Educational, Health and Care (EHC) plans will clearly erode the impact of this additional funding in terms of a real terms increase on costs.

5.21. The indicative allocation for 2023/24 and a 3% uplift for subsequent years is built into the deficit management plan. The five-year cumulative unmitigated DSG deficit position is estimated to be £128 million in 2027-28, per latest projections for the Delivering Better Value (DBV) programme. Whilst it is recognised that managing the DSG deficit requires a long term plan, subject to public consultation, the stretch-confidence DBV 5 year benefits could achieve annual break even by 2025/26 with a total cost reduction of £80 million over the medium term. This could leave a potential cumulative legacy deficit of £48 million in 2027/28, being mitigated over the longer term.

Housing Revenue Account (HRA)

5.22. The HRA includes all expenditure and income incurred in managing the council's housing (circa 29,000) and, in accordance with government legislation, operates as a ring-fenced account with a 30-year business plan. This means that the HRA does not receive any subsidy from government or from council tax. The legislation sets out those items that can be charged to the HRA and it is not permitted to subsidise the General Fund.

5.23. The HRA is required to be self-financing over time with demonstrable sufficient resources to meet future operational commitments, any potential financial pressures or risks identified and approved investment plans. Surpluses or deficits generated in each year will be transferred to / from the HRA general reserve.

5.24. The energy and inflationary pressures noted above are also felt across the HRA services, further impacted by required fire safety works. In particular, inflation impacts on construction, repairs, increased spending on existing stock and the cost of borrowing. The rent standard currently allows rents to increase by 1% above inflation (CPI + 1%), however due to the higher than expected levels of inflation, the government has capped this at 7% for 2023/24. Further caps to increases remain a risk to the 30-year business plan should inflation remain higher than expected later in the year.

5.25. Whilst the decrease in HRA borrowing rates was welcomed as a positive impact on the HRA 30-year plan, we are now seeing interest rates rising to a generally higher level than anticipated. Whilst in 2023/24 development is funded through a combination of major repairs and revenue reserves, capital receipts and external income, if the interest rates do not return to the lower values originally anticipated this will present a risk to the HRA's ability to develop and invest where capital is debt funded in future years.

5.26. During 2023/24 government has enabled 100% retention of right-to-buy receipts for sales from 2022/23 and 2023/24. This is with the intention to boost social housing construction and the council has a period of 5 years in which to apply these receipts to development. These receipts can be used to support up to 40% of new stock development or purchase cost. This therefore presents both an opportunity to the Council in terms of the additional funding source and a risk in terms of the funding gap required to be met. There is also a risk to the HRA projected position should these receipts ultimately require repayment for underuse as there is an interest charge payable in that instance.

Capital Programme

5.27. Capital investment in the programme covers significant and ambitious plans for the coming years expenditure, which includes construction and infrastructure costs, labour and material costs, all of which have been impacted by inflationary pressures. Ongoing supply disruptions and material price increases, compounded by the increase in energy costs, which are a high proportion of cost base for material supply, is unfavourably affecting overall total cost estimates for the programme.

5.28. The increase in National Insurance rates, the availability of labour and cost of living crisis is having an impact on labour costs within the construction industry. With inflation remaining stubbornly high there is a view that construction inflation specifically will continue above general levels of inflation in the medium term.

5.29. The funds available to finance capital investment are set out in the current capital programme which also provides a level of contingency against emerging pressures such as inflation. A level of inflation contingencies is also expected to be included in business cases. Any further pressures due to inflation would need to be contained within the funds available, and any capital schemes not able to contain this additional cost will need to reconsider prioritisation, scope, and delivery timeline to ensure increased costs don't impact on the revenue position and require additional borrowing, which would put strain on the affordability ratios required through the capital strategy.

5.30. The outlook continues to assume that our investments will remain within the affordability thresholds set in the capital strategy.

5.31. The outlook continues to assume a 10% slippage factor, reflecting historic optimism bias in the delivery of programmes.

6. Financial Planning Timetable

6.1. Outlined below is the indicative timetable for the development of the Medium-Term Financial Plan & Capital Strategy and the 2024/25 Annual Budget for the General Fund including Public Health, Housing Revenue Account, Dedicated Schools Grant, and the council's Capital Programme. Please note that in some instances the dates are indicative or to be confirmed and as such may be subject to change.

Table 6: Draft budget timetable

Activities	Date
Planning and commencing service planning	Jul – Sep 2023
Medium Term Financial Plan and Capital Strategy	Oct 2023
Public consultation of budget proposals	Oct – Nov 2023
Approval of Council Tax Base and Collection Fund Estimates	Dec – Jan 2024
Budget Proposals recommended by Cabinet	Jan 2024
Approval of 2023/24 Budget and setting of Council Tax	Feb 2024