

Report of the Director of Finance to the meeting of Executive to be held on 8th September 2021

Subject:

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Medium Term Financial Strategy update, 2022/23 to 2024/25.

Summary statement:

This Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan.

Prior to Covid, the outlook for Council Finances looked significantly healthier than at any point since 2010. The impact of Covid-19 on Council services through additional expenditure and reducing income, coupled with the impact on the wider economy have now altered that outlook for the worse and have added a great deal of additional uncertainty. Additional pressures on Childrens Social Care, the impact of Brexit, and delays to Government reforms of Local Government finance also add further pressures and uncertainties.

The revised forecast identifies for planning purposes a financial gap of £13.4m in 2022-23, increasing to £18.4m in 2023/24 and £18.8m in 2024/25.

Equality & Diversity:

The report sets out clearly the need for equality to be considered as part of the Budget Strategy. As in previous years a full Equality Impact Assessment will be produced for all budget proposals and full consultation with relevant groups will be undertaken. The outcome of consultation will be considered and reported upon before the 2022/23 budget is approved.

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Director of Finance & IT

Portfolio: Leader and Corporate

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 This Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan based on assumptions made from the relevant data available.
- 1.2 The key outcomes that underpin the financial planning of the Council are:
- Better skills, more good jobs and a growing economy
 - Decent homes
 - Good start, great schools
 - Better health, better lives
 - Safe, strong and active communities
 - A sustainable district
 - An enabling Council
- 1.3 The unknown ongoing impact of Covid 19 coupled with increasing demands on Council services, and several fundamental reforms being proposed to Council funding where little detail is currently known, makes financial planning extremely difficult. As a result of the above there are many uncertainties within the forecast.
- 1.4 The MTFS forecast shows a continuing pressure on the Council's financial envelope and identifies a funding gap for planning purposes of c£13.4m, that will need to be bridged through additional savings, additional income or the use of one off reserves to set a balanced budget in February 2022.
- 1.5 Largely as a result of the cost of inflation and demographic growth exceeding growth in Council Tax, Business Rates and other resourcing, the gap then increases to c£18.4m in 2023/24 and £18.8m in 2024/25 as outlined in Appendix 1 Table 1.
- 1.6 There is however much uncertainty, and the long term implications of Covid-19 are currently unknown. These are being closely monitored in light of the recent easing of restrictions, and these (along with many other assumptions) will need to be revised as the picture becomes clearer prior to setting the 2022-23 budget in February 2022.
- 1.7 Appendix 1 section 3.1 details the key uncertainties associated with the forecast. Aside from the on-going impact of Covid 19, there are several national reforms that will impact on the forecast namely:
- Fair funding review
 - Business Rates Baseline reset
 - Move to increased Business Rates retention
 - Spending Review 2021
 - Social Care Green Paper
- 1.8 Clearly the financial impact of Covid-19 & Brexit is still very uncertain for the national economy. Any deterioration of the national economy could lead to further austerity measures imposed on local government.
- 1.9 The Institute for Fiscal Studies recently warned that the Government's existing spending plans implied cuts to some unprotected Government departments (including Local Government) worth up to £17bn, and made no allowance for additional virus-related

spending – which is set to be cut to zero after the end of the current financial year in March 2022, despite the ongoing crisis.

- 1.10 For many of the reforms listed above the implications on individual local authorities will not be known until late in 2021, if at all. This will not give much time to budget for any significant changes in funding. As a result it is important that Council reserves are carefully managed in order to smooth any adverse transition.
- 1.11 An inadequate rating for Children’s Social Care in September 2018 by Ofsted, together with increasing caseloads, increasing numbers of children entering care and subsequent pressure on staffing levels, has led to increasing pressure on the Children’s Social Care budget. Although there was a significant budget increase in Childrens Social Care as part of the 2020/21 and 2021/22 budgets, a significant demand led overspend is currently forecast for Childrens Social Care in 2021/22, and this will need to be addressed through mitigating actions to reduce pressures on the 2022/23 budget.
- 1.12 There are also ambitious budget savings plans in Adult Social Care amounting to a full year effect of £13.8m by 2022-23 (£8.5m in 2021/22 and £5.5m in 2022/23). Delivery of these savings are currently significantly behind schedule as a result of COVID as outlined in the Qtr 1 Finance Position Statement (July Executive), and should they not get back on track by the start of next year, then the budget gap would grow further.
- 1.13 There is also significant uncertainty about the extent to which Covid related pressures and income losses will recur in 2022-23 and beyond. It is also likely that as a result of the recession and behaviour changes, some Council income sources will be adversely affected. The extent of this is currently unknown, but is being monitored very closely now restrictions are lifting. Further clarity about this is expected in the coming months and will be reflected in future updates.
- 1.14 There are however a number of potential items that have not been included into the forecast which could help reduce the gap.
 - New Homes Bonus is due to end by 2022-23 resulting in a loss of funding of approximately £2.0m in comparison to the 2021-22 budget. The national funding for New Homes Bonus is expected to stay within the Local Government sector, and an assumption within this MTFS forecast could be that £2.0m of this will be returned to the Council via increased Revenue Support Grant. Depending on the distribution mechanism, it’s possible that the Council will ultimately receive more than it loses. Indicatively, if the national quantum of NHB was reallocated based on needs, the Council could receive c£3m more.
 - Further, the estimate includes a Council tax increase of 1.99%. If for example the Council Tax referendum limit were lifted, or additional Social Care precept was allowed by the Government, this would reduce the gap by approximately £2m for every 1% increase for each year that there was an increase.
 - Borrowing rates are also historically low and the amount of capital expenditure incurred by the Council relative to plan is also likely to be lower. Work is ongoing to identify the impact, but it could reduce the need for the additional capital financing budget that is currently factored in.
 - Regarding Covid, the Government provided additional emergency funding for

Councils in 2020-21 and part of 2021-22, and also announced an extension to the Sales Fees and Charges income loss compensation scheme to the end of June 2021. Further Government support for Covid related expenditure and income losses (including Council Tax and Business Rates) could be announced either in or before the 2021 spending review. Any additional amounts would first be required to mitigate the 2021-22 forecast overspend however.

- Business Rate Reform, Spending Review, Fair Funding Review, Social Care Green Paper are all potentially going to impact on Bradford but the quantum of these factors on the Council's budget is unknown. Bradford has a relatively high needs base, and the resetting of Business Rates should (all else being equal) have a positive impact for Bradford, however, given the uncertainty of calculation and the risks associated with further Government cuts as a result of Government finances, this MTFS has assumed a £0 impact.
- Further, the Government has been planning to reset the Business Rates system for sometime, and the already delayed reset is now timetabled for 2023/24. This could result in multiple changes to Council finances including potentially the ending of the ring fenced Public Health Grant, and the ending of Section 31 grants that compensate Councils for Government policy changes to the Business Rates system. Given the uncertainty, and the scope for further delay, this MTFS takes no account of these changes and assumes a neutral position, but it should be noted that although they are not expected to impact in 2022/23, they are expected within the timeframe of this MTFS.

1.14 It should also be noted that many Councils across the country are now experiencing very severe financial challenges. Whilst the challenges for the Council are significant and there is a negative outlook, through sound financial planning, maintaining relatively robust levels of reserves, and in year management, the Council remains in relatively strong financial health in comparison to many other Councils.

2. BACKGROUND

2.1 The MTFS forms part of the Council's planning and performance framework, and provides the context for the more detailed budgeting process.

2.2 The MTFS is refreshed each year to give a rolling three year assessment of the fiscal environment, after the close of the previous year, and before the budgeting round commences. Given the uncertainty on any reforms to local government financing, this forecast will need to be refreshed as further information becomes available.

2.3 The MTFS (Appendix 1) comprises three sections

1. Purpose, priorities and principles
2. Medium Term Financial Forecast and Gap Analysis
3. Risks associated with the forecast

Followed by Annex A that provides the current cost structure, savings approved to date, and Council reserves to provide context

3. OTHER CONSIDERATIONS

- 3.1 The MTFS is typically affected by key decisions made by Executive and Council which have material financial implications. In addition national policy changes can also have a significant impact on the MTFS.

4. FINANCIAL & RESOURCE APPRAISAL

- 4.1 The MTFS is a financial and resource appraisal.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

- 5.1 The principal risks arising from the strategic assessment emerge from:
- the sensitivity of financial estimates to actions beyond the immediate control of the Council, in particular Government decisions on local authority financial regimes and spending levels. This is particularly significant for this forecast given the National reforms currently being considered;
 - the capability of the Council to influence Council Tax and Business Rates;
 - the impact on the economy and any resulting adjustment to the local government financial envelope resulting from Brexit.
 - the impact on the economy and any resulting adjustment to the local government financial envelope resulting from Covid-19.
 - The impact of Covid-19 on Council Services.
- 5.2 Specific risks in the plan are set out in section 3.1 of Appendix 1.
- 5.3 The MTFS basic premise is that approved local savings plans will be delivered on time and in full. Should it become clear that these can't be delivered, the budget gap for 2022-23 will grow.

6. LEGAL APPRAISAL

- 6.1 This report is submitted to the Executive in accordance with the Budget and Policy Framework Procedure rules.
- 6.2 The Council is legally obliged to set a balanced budget.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

None specific

7.2 SUSTAINABILITY IMPLICATIONS

None specific

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

None specific

7.4 COMMUNITY SAFETY IMPLICATIONS

None specific

7.5 HUMAN RIGHTS ACT

None specific

7.6 TRADE UNION

None specific

7.7 WARD IMPLICATIONS

None specific

7.8 IMPLICATIONS FOR CORPORATE PARENTING

None specific

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None specific

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

This report sets out the assumptions for budget planning purposes and therefore does not include any options.

10. RECOMMENDATIONS

- 10.1 That having considered the Medium Term Financial Strategy as an assessment of the Council's financial outlook to 2024/25 , and a framework for it to remain financially viable and deliver sustainable public services, in line with its priorities, that Executive approves the updated and revised Medium Term Financial Strategy at Appendix 1.

11. APPENDICES

- 11.1 Appendix 1 Medium Term Financial Strategy 2022/23 to 2024/25 including the annex to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Council Budget Report 18th February 2021

12.2 Executive Report 6rd July 2021 – Quarter 1 Financial Position Statement for 2021-22

12.3 Executive Report 6th July 2021 – Medium Term Financial Strategy Update

APPENDIX 1

**City of Bradford Metropolitan
District Council**

Medium Term Financial Strategy

2022/23 – 2024/25

PURPOSE, PRIORITIES AND PRINCIPLES OF THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 Purpose and priorities

The MTFS sets out how the Council intends to respond to:

- the forecast size of the financial challenge it faces in the medium term
- the constraints of the national and local landscape
- the risks to financial resilience.

In the current financial climate, the Council's principal financial aim is to continue to effectively align scarce resources to support Council priorities:

- Better skills, more good jobs and a growing economy
- Decent homes
- Good start, great schools
- Better health, better lives
- Safe, strong and active communities
- A sustainable district
- An enabling Council

The Council will continue to work with partners, other organisations, residents and communities to deliver positive outcomes on these priorities.

To remain affordable and deliver sustainable public services, the MTFS has four main objectives:-

- Continue the trend of recent years to manage the Council's recurrent cost base in line with overall resources
- Maintain income levels and increase them where possible over the medium term
- Prudently use reserves and balances to smooth the transition to a lower cost base and accommodate unforeseen challenges, and ensure that longer term liabilities and risks are adequately covered
- Seek to benefit from public service reform

1.2 Approach and principles

The MTFS is consistent with the priorities the Council is pursuing, as articulated in the District Plan and the Council Plan.

The principles that will influence the choices the Council will make in the future are summarised below

- **Equalities** must be at the heart of all we do We want to include everyone, from all backgrounds and cultures and recognise all that they do in our communities.
- **Prevention and early help** - we will talk to all our communities about any problems they might have as quickly as possible. This will help to stop things getting worse and put less strain on services if communities work together.

- **Every pound counts** - we will invest our money wisely so that we get the best results. We will work together with businesses and people who support communities to make sure that new ideas are listened to.
- **Working together** - we will work more in partnership with businesses and local voluntary and community organisations to make sure they are the best they can be. By sharing ideas we can make services better for everyone.
- **Living Well** - the Council will work with lots of different services including:
 - Our NHS, doctors and hospitals
 - Independent businesses
 - Our local voluntary and community organisations
 By doing this we will make it easy for people to live a healthier life. This will help to improve the health and wellbeing of everyone in the District.
- **Safeguarding** – we will work with partners and communities. We will do everything we can to make sure that children and adults who are at risk in the District are kept safe. We will work with our safeguarding children’s and adult’s board to make sure this happens.

A robust performance management framework arrangement will make sure value for money, sustainability, efficiency gains and the effectiveness of resource allocations can be demonstrated across all Council services, partnerships and commissioned service delivery; and that mechanisms are in place by which performance against key indicators can be measured and managed. This will provide an increasingly sophisticated understanding of performance against District wide and local priorities set within the context of the financial outlook.

This forecast is based on a series of assumptions which are detailed in the sections below. It starts from the current financial structure of the Council, which is analysed in more detail at Annex A.

The strategy and principles set out above lay down the framework and constraints for the next stage in the continuous cycle of operational and financial planning.

MEDIUM TERM FINANCIAL FORECAST AND GAP ANALYSIS

2.1 The medium term forecast (Table 1 below) compares forecast expenditure, with forecast income, to give a deficit to be managed out through budget decisions.

Table 1

Cumulative gap	2022/23	2023/24	2024/25
2021/22 Base Budget	385,373	385,373	385,373
Reversal of non recurring investment	(2,968)	(2,968)	(2,968)
Base Budget	382,405	382,405	382,405
Recurring Pressures	6,388	6,888	4,638
Inflation	13,409	24,204	35,203
Demographic Growth	1,925	3,775	5,700
Funding Changes	3,735	4,317	3,817
Base Net Expenditure Requirement	407,862	421,589	431,763
Existing approved savings that impact on future years	(5,839)	(5,839)	(5,839)
Capital financing and central budget adjustments	600	600	600
Cost reductions in Revs & Bens due to Universal Credit	(75)	(225)	(225)
Net Expenditure Requirement	402,548	416,125	426,299
RESOURCES			
Localised Business Rates	(63,131)	(64,367)	(65,602)
Top Up Business Rates Grant	(70,990)	(72,765)	(74,584)
Revenue Support Grant	(34,806)	(35,502)	(36,212)
Assumed additional RSG replacing New Homes Bonus	(1,114)	(2,046)	(2,046)
Council Tax Income	(217,109)	(222,990)	(229,018)
Total resources	(389,151)	(397,669)	(407,462)
Budget shortfall/(surplus)	13,397	18,456	18,837

2.2 The starting point for the above Forecast is the 2021-22 net budget of £385.4m approved by the Council in February 2021. This is then adjusted by reversing all of the one off and time limited investments that were approved in prior budgets to get to the base budget (£382.4m).

2.3 Added to this, are a number of recurring pressures that result from previously agreed plans that need to be included in future budgets. The additional amounts that have been incorporated into the forecast budgetary gap for 2022-23 onwards are detailed below.

	2022/23	2023/24	2024/25
Skills House Investment – funded from Covid Grants in 2021/22	1,019	1,019	1,019
Microsoft licences	700	700	700
Adult Commissioning Team expansion	500	1,000	1,000
Stronger Communities Team – remaining full year effect of growth	250	250	250
Culture – remaining full year effect of growth	203	203	203
Legal Services – remaining full year effect of growth	135	135	135
IT Requirement to support Children’s Services	(669)	(669)	(669)
City of Culture 2025 funding	3,000	3,000	2,000
Regeneration opportunity	1,250	1,250	-
Recurring Pressures	6,388	6,888	4,638

- 2.4 Demographic growth primarily for Adults and Childrens Social Care is outlined below. Assumptions will need to be revisited, however the below table provides a continuation of prior years increases.

	2022/23	2023/24	2024/25
Adult demographic growth	1,100	2,200	3,300
Children's Demographic growth	625	1,250	1,875
Waste Demographic growth	200	325	525
Demographic Growth	1,925	3,775	5,700

- 2.8 A 2% pay award, with increases for National Living Wage on contracts is also assumed, with further increases for general inflation on contracts.

	2022/23	2023/24	2024/25
Pay Award incl NLW	5,674	11,451	17,334
Contract Price Indexation	7,612	12,489	17,465
Waste Contract Indexation	580	1,182	1,784
Income	(457)	(918)	(1,380)
Inflation	13,409	24,204	35,203

- 2.5 Regarding Funding Changes, it is anticipated that there will be further reductions to the Local Council Tax Support & Housing Benefit admin grants linked to the roll out of Universal Credit. Better Care Fund grants in Adult Social Care are also expected to be uplifted for inflation in line with prior years.

- 2.6 The New Homes Bonus scheme is due to be phased out with the final tranche received in 2023-24. A compensating increase in Revenue Support Grant of £1.1m in 2022/23 and £2.0m in 2023/24 has been assumed in the Resources section of Table 1 above on the basis that the quantum of New Homes Bonus nationally is likely to be retained within Local Government. Should the retained amounts be redistributed through a relative needs formula for example, this could ultimately benefit Bradford by more.

- 2.7 The Council also received a one off Lower Tier Services Grant from Government in 2021/22 which will drop out in 2022/23, and it also received £6.1m of Local Council Tax Support Grant in 2021-22. c£4m of this has been used to provide £100 discounts to Council Tax Reduction Scheme recipients in 2021-22, with the remaining £2.1m being used to cover increased numbers of CTRS claimants. This grant was one off and will be withdrawn in 2022/23.

	2022/23	2023/24	2024/25
Local Council Tax Support & Housing Benefit Admin Grant	75	150	300
BCF & IBCF Uplift	(500)	(1,000)	(1,500)
Reduction in New Homes Bonus	1,114	2,046	2,046
Lower Tier Services Grant drop out	916	916	916
Council Tax Support Grant drop out	2,130	2,130	2,130
Funding Changes	3,735	4,317	3,817

- 2.8 The Government have been planning a reset of the Business Rates system for some time. A delayed reset of Business Rates was due for 2021/22, but due to Covid, the Government has delayed this further to 2023/24. When the reset happens, it is expected that Section 31 grants that the Council receives will be lost, however, we expect that this would be equivalently compensated. Further, Public Health grant could also be lost,

with an offsetting increase in the Council's retention of Business Rates. The implications are currently unclear however, and the Government's plans could be delayed further. Although it would be reasonable to assume that the Council should ultimately benefit from the reset as Business Rates growth that was being retained by Councils would instead be redistributed through a formula, in the interests of ease and avoiding spurious guesswork, this MTFS has assumed a net £0 impact for now.

- 2.9 The table below outlines the savings for future years that have been included within prior budgets. The main saving relates to Adults Demand Management which is planned to deliver £8.4m of budgeted savings in 2021-22 year, followed by an additional £5.5m in 2022-23. Additionally, the remaining £350k of deferred Welfare Advice savings are budgeted to be delivered in 2022/23.

	2022/23	2023/24	2024/25
Adults Demand Management	(5,489)	(5,489)	(5,489)
Remaining Welfare Advice Savings	(350)	(350)	(350)
Savings included within prior budgets.	(5,839)	(5,839)	(5,839)

- 2.10 Should the above savings not be delivered as planned, this will add to the budget gap. This is a significant risk as the £8.4m Adults Demand Management savings in 2021-22 are currently forecast to be significantly underachieved.

Council Resources

- 2.11 Council Tax and Business Rates have been heavily impacted by COVID-19 with the Council having Collection Fund deficits of c£6.1m for Council Tax and c£28m for Business Rates in 2020/21, that the Council will repay to the Collection fund in 2021/22.
- 2.12 These deficits have been factored into budget setting for 2021-22, and will largely be covered by additional Section 31 grants and Tax Income Guarantee compensation from the Government.
- 2.13 A Business Rates deficit is also likely in 2021-22 as the Government has provided additional reliefs to businesses. Any deficit is however largely expected to be covered by additional Section 31 grants to compensate the Council for this.
- 2.14 Given the current state of the economy, only very marginal growth of £0.6m in Business Rates has been assumed as part of this MTFS, taking the total amount of retained Business Rates to c£63.1m.
- 2.15 Regarding Council Tax, given the uncertainties surrounding the numbers of Council Tax Reduction Scheme recipients following the end of furlough, the same Council Tax base as 2021-22 (142,000 Band D equivalents) has been assumed for 2022-23, with growth to 143,000 in 2023/24.
- 2.16 A 1.99% increase in Council Tax has also been assumed, resulting in c£217.1m in 2022-23, a c£4.2m increase on 2021-22. Should the Government increase the Council Tax referendum limit, or allow for additional Adult Social Care precept, each 1% change would result in c£2.1m of additional income.

- 2.17 Work on a revised estimate of the Council Tax and Business Rates base has commenced, and a report setting the respective bases will be provided for January 2022 Executive, in advance of setting the Council budget in February 2022.
- 2.18 The Government was also planning on Councils moving to 75% Business Rates retention. This is currently on hold due to Covid, however, should it occur in 2023-24 as the Government now plans, then we would also expect to see other offsetting reductions in grants (for example, to Revenue Support Grant, and the Public Health grant) potentially negating any increase. On balance the Council should expect to benefit from a reset of the Business Rates system, however, as the implications are currently very unclear, a £0 impact has been assumed until better information is available.

Summary

- 2.19 All of the factors and assumptions outlined above result in a forecast gap in 2022-23 of £13.4m.
- 2.20 Largely as a result of the cost of demographic growth and inflation significantly outstripping estimated income from Council Tax and Business Rates, the forecast gap then grows to c£18.4m in 2023-24 and £18.8m for 2024-25.
- 2.21 It should however be noted that there are unprecedented levels of uncertainty, and the forecast gap will be subject to change as we become better informed about the ongoing impact of Covid-19, the impact of Brexit, and other factors that impact on Council funding and Council services.
- 2.22 Based on the Qtr 1 Financial Position Statement the Council is forecast to overspend by c£9m in 2020-21. This MTFS hasn't taken account of this overspend currently. The Council has a good track record of balancing the books by year end, and this is assumed for now.
- 2.23 It should also be noted that there are a number of potential items that could reduce the gap which are not currently factored in.
- As outlined previously, New Homes Bonus is due to end by 2023-24 resulting in a loss of funding of approximately £2m in comparison to the 2021-22 budget. An equivalent amount has been included in the MTFS forecast on the assumption that the nationwide NHB funding is retained by Local Government. Depending on the distribution method used, the Council may expect to benefit by a greater extent than currently forecast.
 - The estimate included for the increase in Council tax is 1.99%. If for example, the Government increased the referendum limit, or allowed a Social Care precept, each 1% increase would reduce the gap by approximately £2m for each year, if the local decision was to increase Council Tax to the maximum permitted.
 - The Government provided emergency funding for Councils in 2020-21 and part of 2021-22. This is expected to cover most of the marginal costs associated with Covid in 2021-22. Further Government support for Covid related expenditure and income losses (including Council Tax and Business Rates) could be announced either in or before the 2021 spending review. Any additionality would however, be required to mitigate any 2021-22 overspend first.

- Business Rate Reform, Spending Review, Fair Funding Review, Social Care Green Paper are all potentially going to impact on Bradford but the quantum of these factors on the Council's budget is unknown.

RISKS ASSOCIATED WITH THE FORECAST

3.1 A series of potential changes in the Spending Review, Local Government Settlement, Business Rate reform and the results of the Fair Funding Review inevitably means there are many uncertainties and sources of risk attached to the forecast.

Risks associated with the forecast:

- The ongoing impact of Covid-19 on expenditure and income reductions
- The impact of national economic performance on public sector finance as a result of Brexit.
- The buoyancy of the local economy
- Fair Funding Review
- Business Rates Baseline Reset
- Move to 75% Business Rates retention
- Business Rates Review process, appeals against the rating list and future increases in the Business Rate multiplier
- Integration of health and social care, the financial health of the NHS, and the ability and willingness of the NHS to fund social care
- Current work being undertaken in Children's Social Care and the impact of any further Ofsted inspections
- Inflation – a 1% variance in pay equates to £2.5m and a 1% change in prices would have a £2.2m impact on expenditure assumptions
- Treasury management – the extent to which cash balances will drive the need to borrow to finance capital investment
- Change management risk, and the deliverability of existing budget decisions
- Liabilities that may arise from conversion of schools to academies
- Contractual risk
- What devolution, regional and other aspects of public sector reform will mean for Bradford
- Potential increase in West Yorkshire Transport levy as a result of increased borrowings in respect of the West Yorkshire Transport Fund
- Impact of demographics in terms of both additional demand and additional growth
- The potential costs of transition and restructuring
- Spending Review 2021

4.1 ANNEX A: CURRENT COST STRUCTURE AND SAVINGS APPROVED TO DATE

To put the size of the challenge facing the Council into context an understanding of the current cost base and savings delivered to date is required. Section c) below also outlines the Council's current reserve levels.

a) Cost Base

Whilst the Council continues to have overall accountability for over £1.1bn of spend, it cannot spend directly £299m which is controlled by schools. This leaves, in 2021-22, a gross expenditure budget of £848m (£385m net expenditure) to fund non school activity.

Budget split between Schools and Council

2020/21	Gross Exp	Net Exp
	£m	£m
Council Services	848.0	385.4
Schools	299.3	0
	1,147.3	385.4

If the £106m spent on benefit payments, the £35m required to meet the cost of the long term PFI contracts, the £23m levy paid to the West Yorkshire Combined Authority (WYCA), the £41m that must be spent on Public Health activity and the £29m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £643m, from which to drive out further savings.

Of the net budget of £385m, 29.0% is allocated to Adult Social Care in the Health and Wellbeing department, and Childrens Social Care within Children's Services accounts for a further 21%. This emphasises that if the Council is going to balance its books in the long term and make sure the services it provides are sustainable, controlling demand and spend on Adults and Integrated Health Care, and Childrens Social Care is key.

	£ms	
Health & Wellbeing	111.1	29%
Children's Services	103.6	27%
Dept of Place	64.9	17%
Corporate Resources	47.6	12%
Chief Execs Office	4.5	1%
General Fund (Wyca & Capital Financing)	47.5	12%
Non Service	6.2	2%
	385.4	100.0%

b) Savings approved to date

Since 2010, reductions in Government funding, and inflationary and demographic pressures have required the Council to approve savings/cuts over the period of £305.7m.

During the period of austerity Councils have absorbed a large share of Government funding reductions in relation to overall public sector funding reductions. Throughout this period the Council has protected basic services at a time of growing cost pressures. The Council will continue to focus on reducing costs and improving efficiency and productivity but finding new savings will mean that frontline services will be impacted.

The Council typically has a good record of delivering budgeted savings, however, the impact of Covid is delaying the delivery of Learning Disability demand management savings in Adult Social Care in 2021-22, and the compounding impact of delays to delivery could have an ongoing impact into 2022-23 and beyond.

c) Reserves

At 31st March 2021 useable reserves stood at £299.4m (Council £256.5m, and Schools £42.9m), compared to £238.9m at the end of 2019-20. Unallocated reserves were £10.7m, and General Fund reserves stood at £15m.

Net movements in reserves led to a £60.5m increase in total useable reserves from £238.9m at 31st March 2020 to £299.4m as at 31st March 2021.

	Closing Balance 2018-19 £m	Closing Balance 2019-20 £m	Net Movement	Closing Balance 2020-21 £m
Council reserves	181.6	207.0	49.5	256.5
Schools balances	27.2	31.9	10.9	42.9
Total	208.8	238.9	60.5	299.4

The main reason for the £60.5m increase in useable reserves is COVID-19 related, with the Council carrying forward c£27m of Covid related grants received in 2020-21 to support Council Services in 2021-22, and an £18m increase (to £35m) in the reserve holding Section 31 grants and Tax Income Guarantee compensation from the Government. This will be required to repay the Council's £34.8m share of 2020-21 Collection Fund deficits in 2021-22. Further, c£5.6m of funds were moved to reserves at year end to complete priority investments that had been delayed as a result of Covid. In short, the increase in reserves in 2020-21 will be quickly reversed in 2021-22.

The total value of revenue balances held by maintained schools at the end of 2020/21 also increased by c£10.9m to £42.9m. There are a number of factors that contributed to this increase, including the impact of COVID-19 where planned activity (and planned spending) has been delayed into 2021-22. The Council cannot use School balances in support of the Council's budget.

The Council takes a risk based approach to the management of useable reserves and as part of setting the annual budget, the s151 Officer undertakes a review of risks and known commitments to calculate a minimum level for the General Fund reserve, and this was incorporated into the Council budget reports. For 2021/22, it was determined that a level of £15m remained an appropriate figure.

Additionally, the Council has some Earmarked reserves that could be re-designated should it be required. These include the c£54m Financing reserves that resulted from the change in Minimum Revenue Provision policy in 2018-19. Again, should this reserve be used then it will either have to be replenished, or otherwise it will cause a budget pressure in future years.

Similarly the Council has a reserve that was created to smooth the cost of PFI schools over the life of the contract. In the early years of the contract the Council received an amount from Government in excess of the amount required to pay the contractors, however, in the later years this is reversed at which point the plan was to draw down from the built up reserve until the end of the contract. The Council can however use these reserves for other means should the need arise. If they were used now, they would however cause a budget problem in future years.

Other earmarked reserves are also being reviewed to assess the extent to which they could be repurposed, however the vast majority of earmarked reserves are already set aside to help fund expenditure that the Council is already committed to.