Report of the Director of Finance to the meeting of Executive to be held on 6th September 2022

Subject: **O**

Medium Term Financial Strategy update, 2023/24 to 2025/26.

Summary statement:

This Medium Term Financial Strategy (MTFS) update sets out the forecast financial resources available to the Council to support the delivery of its key priorities as set out in the Council Plan 2021-2025.

Since 2010, the Council has had to deliver over £300m of budget reductions and increase council tax in order to meet the financial pressures arising from national austerity measures, rising demand and increasing costs. Having to cut costs and increase income while continuing to meet the needs of residents has required difficult decisions and placed services under pressure. Nevertheless, a robust and prudent approach to financial management and the use of resources meant that immediately prior to Covid, Council finances had achieved a greater degree of health and stability than at any point over the previous decade.

The continuing impact of Covid-19 on Council services through additional expenditure and reducing income, alongside inflationary pressures on both pay and prices not seen since the 1970s due at least in part to the war in Ukraine, and the effect of the cost of living crisis on demand for Council services have now altered that outlook for the worse, and created a great deal of additional uncertainty. Recent years have also seen significant growth in demand for Children's Social Care nationally which has also been experienced in Bradford. Challenges in recruitment and retention, and pressures in adult social care are also contributing to a situation in which Council finances are under considerable strain.

These financial pressures are compounded by repeated delays to Government reforms of Local Government finance such as business rates reset, and Fair funding formula review implementation, which are expected to result in additional funding for the Bradford District. Failure to implement these measures has resulted in further financial pressures above those that would otherwise have been the case.

Despite consistently delivering a balanced budget in previous years, the factors outlined above have created a forecast budget gap that the Council will struggle to address without significant additional funding.

The revised forecast identifies for planning purposes a financial gap of c£77m in 2023-24, reducing to £72m in 2024-25 and £64m in 2025-26.

Given the level of uncertainty, a number of assumptions have had to be made, and these will

need to be revised throughout the budget planning process, and in advance of setting the budget at Budget Council in February 2023.

Equality & Diversity:

Services and investment delivered or commissioned by the Council can play a significant part in addressing inequality, improving well-being and widening access to opportunities and 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 2023/24 and subsequent budgets are approved.

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Overview & Scrutiny Area:

Corporate

1. BACKGROUND

1.1 The MTFS forms part of the Council's planning and performance framework, and provides the context for the more detailed budgeting process. Subject to the scale of the issues faced this financial year and potential impact on the MTFS the Council has commenced the budget process earlier than usual and has a twice weekly meeting of the Chief Executive's management team to focus on mitigation activities.

1.2 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.

1.3 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

2. SUMMARY

2.1 This Medium Term Financial Strategy (MTFS) sets out the forecast financial resources available for the Council to deliver its key priorities as set out in the Council Plan 2021-2025 based on assumptions made from the relevant data available.

2.2 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

2.3 The MTFS shows a forecast budget gap; based on current information to date and assumptions of:

	2023/24	2024/25	2025/26
Budget Gap	£77m	£72m	£64m

2.4 The budget gap is predominantly driven by the significant ongoing impact of inflation on the Council's cost base in 2023-24. This is forecast to increase core costs by £58.6m, £72.6m and £86.7m respectively in each of the three years covered by the MTFS. Although we would expect some compensatory increases, for example through an uplift to the Better Care Fund and increases to the Business Rate Multiplier the net impact will be c£40m residual inflationary pressures in each of the next three years. This is based on the inflationary assumptions included within the report. Of concern is the predicted further increases in inflation over the medium term which may deepen this gap.

2.5 In addition to the uncertainty caused by current national inflationary position, the MTFS is also impacted by increasing demands on Children's Social Care services and the continuing high cost of placements and reliance on agency workers

2.6 Several fundamental reforms being proposed to Council funding, such as the fair funding review, where little detail is currently known, makes financial planning extremely difficult. The national local authority finance settlement is not anticipated until December 2022, which provides for further uncertainty into the MTFS position.

2.7 Taking the above into account, the MTFS forecast shows a continuing pressure on the Council's financial resources and identifies a potential funding gap for planning purposes of c£77m in 2023/24, 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 2023. Paragraph 1.15 provides a schedule of current identified mitigation options being pursued.

2.8 There is however much uncertainty, and the long term implications of the war in Ukraine, inflation, Covid, Brexit, forecast recession, Children's and Adult's Social Care pressures and the Government's long-term response to them are currently unknown, and these (along with many other of the assumptions) will need to be revised as the picture becomes clearer prior to setting the 2023-24 budget in February 2023.

2.9 The MTFS forecast funding gap reduces from c£77m in 2023/24 to c£72m in 2024/25 and c£64m in 2025/26 as outlined in Appendix 1 Table 1. This is largely as a result of an assumption that the Children's Services Improvement Plan will be implemented effectively and have a consequential impact in reducing costs closer to benchmark levels.

2.10 Appendix 1 section 3.1 details the key uncertainties associated with the forecast. Aside from these, there are also several national reforms that will impact on the forecast namely:

- Fair funding review
- Business Rates Baseline reset
- Social Care reforms.
- Spending Review 2022
- Additional responsibilities in relation to consistent Waste Collection reforms
- Additional responsibilities for school attendance, and SEND amongst others.

2.11 Several of these key reforms have been repeatedly delayed and the implications for individual local authorities will not be known until late in 2022, if at all.

2.12 An inadequate rating for Children's Social 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 Children's Social Care in each of the last three years (£99.7m of additional funding has been allocated including current forecast spend and the current base budget is £38.4m / 41% higher than the 2018/19 budget), the impact of the number of (and high cost) placements and workforce instability leading to large agency numbers has created a continuing very large forecast overspend for Children's Social Care in 2022-23. The Council and the Department for Education will need to work together to ensure that the new Bradford Children and Families Trust has sufficient budget to perform its operations in 2023-24 onwards, while ensuring that other Council services supporting vulnerable adults, children and families, and supporting quality of life and economic growth continue to be sustainable, and that resources are available to support vulnerable residents in the cost of living crisis.

2.13 Ambitious 4-year Adult Social Care budget savings were previously approved. Partly as a result of Covid, delivery of these savings is currently significantly behind schedule as outlined in the Qtr 1 Finance Position Statement (July Executive), and it now appears these savings are not deliverable in full.

2.14 It is also likely that as a result of inflation; the forecast recession, and behaviour changes, some Council income sources will be adversely affected. Some Council Traded services are likely to be increasingly pressured as a result of inflationary cost increases that can't successfully be passed on to customers. This may impact the continued financial sustainability of some traded services and their ongoing viability will need to be considered.

2.15 The extent of this is currently unknown, but is being monitored very closely. Further clarity about this is expected in the coming months and will be reflected in future updates

2.16 There are however a number of potential items that have not been included into the forecast which could help reduce the gap.

- The estimate includes a Council tax increase of 1.99% (the current limit before a local referendum is required), and a 1% assumed increase in Social Care precept. If for example the Council Tax referendum limit were lifted, or additional Social Care precept was allowed by the Government and the Council chose to increase these beyond current limits, then this would reduce the gap by approximately £2.2m for every 1% increase for each year that there was an increase. With inflation so high, allowing the threshold to match inflation is unlikely – but keeping the "core" threshold at 2% would represent a very significant real terms cut in the yield from Council tax. Council Tax increases would also inevitably lead to further pressures on households, and potentially increased demand led costs to Council budgets.

- Business Rate Reform, Spending Review, Fair Funding Review, Social Care funding reforms 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 very positive impact for Bradford.

- A large number of mitigations are currently being explored to close the forcast budget gap.
  These include the mitigations identified in quarterly Budget Monitoring and Forecast reports presented to the Executive and proposals currently being developed by officers. The schedule of mitigations currently under review are listed below:

  <u>Within Children's Services</u>

- The approved Sufficiency Strategy will be implemented. The strategy is focused on increasing provision across our residential sector so that it provides children and young people with homes that are smaller in size (2-3 young people per home) and offers a holistic approach to meet the needs of young people in our care.
- A Foster Carers report was approved at June Executive, investing in the Foster Carer service. The report recommendations will be implemented.
- A Childrens Homes report was approved at June Executive. This established a fit for purpose strategy for use and development of children's homes that will be an invest to save and will improve local in District provision.
- The Early Help business case will help mitigate against children requiring statutory social care services which helps to manage demand across the service.
- Investment in a CIC Post was approved, this is for a Service Manager to be put in place to enable the bringing together of the Children in Care and Leaving Care teams to provide a consistent approach and smooth transition for C&YP in our care.
- A revised structure has been approved, providing for further significant uplift in the number of social worker and management roles
- An invest to save business case to invest in Court Consultants will enable the safe reduction of the number of children in care, which in turn will increase capacity across the service
- The service will continue to pursue the following actions to reduce the forecast overspend positively impact upon the MTFS.
    - Review of high cost placements.
    - Seek contributions from partners towards placement costs.
    - Recruitment of permanent social workers to reduce reliance on the use of agency staff. Currently, the use of agency is over 40% of the staffing budget. The service value for money and efficiency plan intends to reduce this by 10% each year to December 2023, to get the overall level down to 10% by then. The plan will be completed in August.
    - Grow in-house children residential provision, to reduce costly external placements.
    - Commercialisation of some services to deliver substantial return.

Within Health & Wellbeing Services

- Discussions with health partners regarding the financial impact of Discharge to Assess for the Council and potential funding options, or changes to the discharge to assess model to reduce the activity from the hospitals.

- The long term home support forecast is based on current levels of activity and the service is optimistic that this can be reduced through ensuring annual reviews are carried out, continued positive outcomes from Enablement discharges, embedding strength based approaches across all teams and increasing the occupancy at the Fletcher Court Extra Care scheme.

- New Choices (a newly established Special Purpose Vehicle) has been set-up to transition LD day care services to a more personalised service.

It is anticipated that there will be a reduction in the forecast expenditure once the costs have been baselined after the first half of the year.

- Work has commenced on the transformation of the remainder of the departments block contacts (residential and nursing and respite services) which should realise savings as the work progresses this year.

- Reviewing capacity was increased in the latter half of 2021-22 and this should have a positive financial impact as reviewing is aligned to the departments commissioning plan.

Within Place

- Development of the Materials Recovery Facility (MRF), to facilitate in-house processing of all recycling waste and negate the requirement for third-party intervention. However, the business case approval is on hold pending the publication of the Government's consultation on consistent collections across the UK.
- Outsourcing recycling processing to third parties.
- The Government’s consistent collections announcement is currently aimed at full kerbside segregation of paper, glass, cans, plastic and card as well as having a weekly segregated food collection service. Department Environment Food and Rural Affairs (DEFRA) will fund (details TBC) this change initially and it is aimed to start from 2023 onwards.
- The service has taken the decision to close the MRF and Transfer Loading Station (TLS) on bank holiday Mondays which will reduce overtime costs. This change will be assessed weekly to ensure that the TLS is cleared of waste and DMR on Friday.
- There is an on-going review of fuel usage with a view to reduce consumption if/where possible. Waste Services’ fuel usage is the highest of any service across the Council so any reduction could be significant

Within Corporate Resources

- Work continues to support initiatives as an enabling function
- A core services transformation programme has been established to streamline processes
- The Council Transformation programme has been re-aligned to focus upon identified priority projects.
- An accommodation strategy review has commenced as part of corporate landlord responsibilities; this includes an asset disposal strategy.
- An IT review has commenced built upon the investment made to update the council core infrastructure upon a modern Microsoft platform. The service is undertaking a number of reviews including applications (incl Multi-Functioning Devices (MFD) and landlines); licences; data usage; devices; cloud strategy and traded services.
- A procurement review has commenced and due to report back in Autumn. The review is targeted at enhancing the value to the Council and the District of our procurement exercises, including further Social Value considerations.

A number of further potential mitigations and actions are being considered by officers and at the request of the Executive, including:

- A review of the Capital investment plan
- Capitalisation of more eligible project management costs involved in delivering approved capital projects
- Minimum Reserve Provision Policy change
- A reserves review
- A Fees and Charges review
- Invest to save initiatives
- An estates review
- The implementation of a Housing Revenue Account
- A review of traded services
- Fleet centralisation
- The introduction of a vacancy abatement factor in advance of potential vacancy freeze
- A targeted reduction in agency costs
- Seeking additional funding for services from partners and other organisations
- Lobbying for additional funds from Government

2.17 Many Councils across the country are now experiencing very severe financial challenges, primarily as a result of inflation and Social Care demand. The scale of the challenge is such, that failure to provide additional Government support will result in some major issues for Councils and Government.

2.18 The Local Government Association forecast that inflation, energy costs and projected increases to the National Living Wage will add £2.4 billion in extra cost pressures onto council budgets this year alone, rising to £3.6 billion in 2024-25.

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 Inflation, Brexit and Covid 19.

- The impact of inflation, the forecast recession, Brexit and Covid-19 on Council Services and on local residents and businesses.
- Ongoing increases in demand for services, particularly children's and adults social care.

5.2 Specific risks in the plan are set out in section 3.1 of Appendix 1.

5.3 A basic premise of the MTFS is that approved local savings plans not otherwise identified will be delivered on time and in full. Should it become clear that these can't be delivered or mitigated, the budget gap for 2023-24 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

See front page.

7.2 SUSTAINABILITY IMPLICATIONS

Non specific

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

Non specific

7.4 COMMUNITY SAFETY IMPLICATIONS

Non specific

7.5 HUMAN RIGHTS ACT

Non specific

7.6 TRADE UNION

Non specific

7.7 WARD IMPLICATIONS

Non specific

7.8 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

Non specific

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESEMENT

Non 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 2025-26, 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 2023-24 to 2025-26 including the annexes to the Strategy.

12. BACKGROUND DOCUMENTS

12.1 Executive Report 12th July 2022 – Quarter 1 Financial Position Statement for 2022-23 Council Budget Report 17th February 2022

12.2 The Council's Revenue Estimates for 2022/23 –Amended following publication of the Final Local Government Settlement on 7 February 2022 (Further Amended Document E Council Budget Report 17th February 2022

APPENDIX 1

City of Bradford Metropolitan District Council

Medium Term Financial Strategy

2023/24 – 2025/26

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 as set out in the Council Plan 2021-25:

- 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 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 for 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.

This forecast is based on a series of assumptions which are detailed in the sections below. These have been developed amidst significant uncertainty about international issues, the national economy and cost of living crisis and the future of local government finance and they are likely to be subject to revision over time. The forecast 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 forecasts (Table 1 below) compares forecast expenditure for next year and beyond, with forecast income, to give a deficit to be managed out through either additional funding or budget decisions.

Table 1

Cumulative gap	**2023/24**	**2024/25**	**2025/26**
2022/23 Base Budget	388,456	388,456	388,456
Base Budget	388,456	388,456	388,456
Recurring Pressures	50,800	45,800	40,800
Reversal of time limited investment for CoC & Regen Op	0	(2,250)	(4,250)
Inflation	58,604	72,565	86,727
Demographic Growth	2,713	5,467	8,129
Funding Changes	(15,100)	(26,038)	39,488
Base Net Expenditure Requirement	485,472	483,999	559,350
Existing approved savings that impact on future years	(350)	(350)	(350)
Capital financing and central budget adjustments	0	2,527	2,986
Reduction in £50 Council Tax Hardship Scheme	(1,600)	(1,600)	(1,600)
Net Expenditure Requirement	483,522	484,576	560,386
RESOURCES			
Localised Business Rates	(64,000)	(65,600)	(67,240)
Top Up Business Rates Grant	(69,259)	(72,035)	(69,631)
Returned S31 Cap compensation when BR reset	0	0	(16,836)
Returned BRRS growth at reset	0	0	(36,280)
Revenue Support Grant	(35,875)	(30,293)	(53,528)
Assumed additional RSG replacing New Homes Bonus	(3,342)	(4,599)	(8,372)
Approved use of reserve for CoC & Regen Opportunity	(4,250)	(2,000)	0
Council Tax Income	(229,642)	(238,145)	(244,579)
Total resources	**(406,368)**	**(412,673)**	**(496,466)**
Budget shortfall/(surplus)	**77,155**	**71,903**	**63,920**

2.2 The starting point for the above Forecast is the 2022-23 net budget of £388.5m approved by the Council in February 2022.

Inflation

2.3 Regarding inflation, as CPI/RPI; energy price inflation and the 2022-23 national pay award offer are so much higher than budgeted in 2022-23, additional amounts will need to be factored into budgets to catch up.

2.4 A 4% pay award, with increases for National Living Wage on contracts is also assumed for 2023-24, with further increases for general inflation on contracts both in relation to an uplift to catch up with 2022-23 inflation, and forecasts of 2023-24 inflation.

2.5 The Council budgeted for a 4% CPI increase on general contracts. Following the war in Ukraine, CPI according to the Treasuries averaging of independent forecasts in July is now expected to be 9.7% for 2022, and 4.7% for 2023, and more recent announcements have indicated that they could increase further.

2.6 The Council budgeted for a 5% energy price increase in 2022-23, however, estimates from our supplier, anticipated a 118% increase in 2022-23. It is currently assumed that this will persist into 2023-24, with further CPI increases from 2023-24. Again, more recent national coverage of energy costs indicate that this could further increase.

2.7 Inflationary/CPI increases to sales fees and charges income budgets, including catch up from 2022-23 are also assumed, but the extent to which these budget increases will be attainable will require further analysis. Should there be any income budget increases below CPI, these would be the equivalent of real terms investments in services.

2.8 It should also be noted that price increases for Sports Facilities, Theatres, Parking, Social Care fees amongst others, would also contribute adversely to the cost of living crisis.

2.9 The MTFS is clearly very sensitive to inflationary pressures, and the current price instability consequently makes forecasting very uncertain. It should also be noted that these inflationary pressures will apply to all councils

	2023/24	**2024/25**	**2025/26**
Pay Award incl NLW	11,796	17,909	24,135
Uplift for 2022-23 pay award being higher than budgeted	14,560	14,851	15,148
Contract Price Indexation including uplift for 22-23 catch up	39,343	47,899	56,579
Waste Contract Indexation including uplift for 22-23 catch up	2,000	3,000	4,000
Sales Fees and Charges Income	(9,094)	(11,905)	(13,136)
Inflation	58,604	72,565	86,727

The total inflationary impact over the 3-year MTFS period is £217,896

Recurring Pressures

2.10 Added to this, are a number of recurring pressures that have either been approved previously, or are significant pressures identified in 2022-23. The additional amounts that have been incorporated into the forecast budgetary gap for 2023-24 onwards are detailed below. The major issues related to indicative additional Children's Social Care costs that the new Bradford and Children's Families Trust will need to operate in 2023-24, and the adding back of some undeliverable Adult Social Care demand management savings.

The MTFS currently assumes investment into Childrens Services will continue but will reduce as the improvement plan is implemented and consequently reduces costs of delivery

	2023/24	**2024/25**	**2025/26**
Adult Commissioning Team expansion per prior approvals	500	500	500
Childrens Social Care costs	45,000	40,000	35,000
Undelivered remaining Adult Social Care savings	5,000	5,000	5,000
Environmental Health Compliance	300	300	300
Recurring Pressures	50,800	45,800	40,800

2.11 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.

Further activity has commenced to understand the Adult demand growth and the impact upon the market following Covid. The growth in this sector nationally is higher than children's and the MTFS may need flexing to match predicted growth in this sector.

	2023/24	2024/25	2025/26
Adult demographic growth	1,963	3,892	5,804
Children's Demographic growth	625	1,250	1,875
Waste Demographic growth	125	325	450
Demographic Growth	2,713	5,467	8,129

Funding Changes

2.12 Regarding funding Changes, the New Homes Bonus scheme was due to be phased out by now, however as it remains a key funding source for some councils, it continues to get phased out slowly, and we estimate that the it will continue at a lower level for 2 further years. The New Homes Bonus money is however in the Local Government System, and we anticipate that the funding would be redistributed via an alternative mechanism (e.g. relative needs) where the Council would expect to benefit by more than it loses.

2.13 Although the Council hasn't budgeted for inflationary increases on Better Care Fund previously, the Council has received uplifts during recent years, so we now expect that to continue.

2.14 Regarding Public Health grant, we expect inflationary increases in 2023-24, however the increased grant will help pay for inflationary pressures in Public Health. The Department of Health has however been working on a new Public Health Relative needs formula, and although it's not current policy, if adopted as planned, the formula would potentially result in a big increase. It should however be noted that where funding formula do result in significant changes, Government departments do often seek to mitigate the extent of the reductions to Councils that are adversely affected by the formula changes by providing transitional arrangements.

2.15 Regarding Social Care reforms which will see the cost of care capped, we are anticipating additional funding to pay for these reforms. Although the increase in funding may be significant, it will also be coupled with new burdens. In the MTFS we have assumed that the reforms are cost neutral to the Council overall. It should however be noted that many Councils are starting to identify shortfalls between expected funding levels and the likely cost of these reforms.

2.16 In recent years, the Government have provided additional Social Care grants. In our modelling, we have assumed that there will be an additional £5m per year for Social Care from 2023-24 onwards. This is at the bottom end of the increases in grant funding since 2015-16, however it should be noted that this is assumed rather than announced. There are well documented national pressures on Social Care, and the need for additional Social Care funding has been prominent in the recent contest to become Prime Minister.

2.17 Regarding Section 31 Retail Reliefs, the Government provided additional reliefs to Businesses in 2022-23, and compensated councils for the reduction in Business Rates accordingly. This is currently anticipated to end in 2022-23, so the grant will reduce, but this would be offset by more Business Rates collected from businesses all else being equal.

2.18 The Council also receives S31 compensation from the Government when they decide to freeze the business rates multiplier which is applied against the rateable value of business properties.

2.19 This has been capped or frozen by the Government on four separate occasions since 2013-14, and in 2018-19 has been uprated using the Consumer Price Index rather than the (higher) Retail Price Index.

2.20 Local authorities have been provided with compensation for all the occasions on which the multiplier has been under-indexed. The actual cost of freezing the multiplier depends on the actual rate of CPI in September 2022. Our estimates are that the Multiplier will be capped again, based on 9.4% – but the rate of inflation and the cost of freezing the multiplier is almost certainly going to be higher.

2.21 Current Government policy is that the Business Rates reset will occur in 2025-26, and at this point S31 compensation grants would end, but the equivalent funding would be returned to the Council through some other mechanism.

2.22 The Council also received a Lower Tier Services Grant and a Services Grant from Government in 2022-23, and we anticipate that this will continue until the Fair Funding Formula review is implemented in 2025/26 (though it should be noted that this has already been deferred on a number of occasions).

	2023/24	2024/25	2025/26
BCF & IBCF Uplift	(1,000)	(2,000)	(3,000)
Reduction in New Homes Bonus	1,029	1,029	2,079
PH Grant Uplift	(877)	(1,772)	(8,428)
Offset by additional PH Grant costs	877	1,772	8,428
Additional grant for Social Care reforms	(11,845)	(17,588)	(17,588)
Cost of Social Care reforms	11,845	17,588	17,588
Assumed additional Social Care Grant	(4,481)	(9,784)	(14,940)
Lower Tier Services Grant drop out	0	0	979
Services Grant drop out	0	0	9,600
S31 Grant for Retail Relief drop out	7,431	7,431	7,431
Assumed S31 for Multiplier Cap compensation	(18,079)	(22,714)	37,339
Funding Changes	(15,100)	(26,038)	39,488

Previously approved savings

2.23 The table below outlines the savings for future years that have been included within prior budgets. The budget assumes the remaining £350k of Welfare Advice savings that were deferred in the 2022-23 budget, would still need to be delivered in 2023-24 under current financial plans.

2.24 It should also be noted that Adult Demand Management savings are also unlikely to be delivered in full, and £5m of these have consequently been added back as a recurring pressure (re recurring pressures table in section 2.3).

2.25 There are also other undelivered savings from prior years in Sports and Culture. These are currently assumed to be either delivered or mitigated in another way by 2023-24 and have consequently not been included in the MTFS. Should they not be delivered as planned, this would add further pressures.

	2023/24	**2024/25**	**2025/26**
Remaining Welfare Advice Savings	(350)	(350)	(350)

Council Resources

2.26 Council Tax and Business Rates have been heavily impacted by COVID-19 with the Council having Collection Fund deficits of c£18m from 2021-22.

2.27 These deficits were expected, and they will be covered by additional Section 31 grants and Tax Income Guarantee compensation from the Government currently held in reserve.

2.28 Regarding 2022-23 Business Rates and Council Tax collection, we are not currently forecasting either surplus's or deficits, however this may change as the year progresses.

2.29 Given the current state of the economy, and after accounting for the drop out of S31 Retail reliefs compensation in 2023-24, the Council is not currently assuming any significant growth in Business Rates as part of this MTFS.

2.30 Regarding Council Tax, given the uncertainties surrounding the numbers of Council Tax Reduction Scheme recipients as a result of the cost of living crisis, the Council Tax base for 2023-24 has been assumed to be only 1,000 higher at 144,420 Band D equivalents), with further growth to 145,420 in 2024/25.

2.31 A 1.99% increase in Council Tax has also been assumed, and a 1% Adult Social Care precept has also been assumed resulting in c£229.6m in 2023-24. An c£8.2m increase on 2022-23. Should the Government increase the Council Tax referendum limit, or allow for additional Adult Social Care precept and the Council decide to apply increases above those limits then every 1% increase would result in c£2.2m of additional income.

2.32 Work on a revised estimate of the Council Tax and Business Rates base has commenced, and report setting the respective bases will be provided for January 2023 Executive, in advance of setting the Council budget in February 2024.

RISKS ASSOCIATED WITH THE FORECAST

3.1 A series of potential changes in the inflationary outlook, 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 inflation.
- The ongoing impact of Childrens Social Care and funding for the Bradford Childrens and Families Trust.
  Demand pressures in adult services.
- 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
- 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
- Treasury management – the extent to which cash balances will drive the need to borrow to finance capital investment, and the impact of changes in interest rates
- 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 District.
- Potential increase in West Yorkshire Transport levy as a result of increased borrowings in respect of the West Yorkshire Transport Fund
- Impact of economic downturn on demographics in terms of both additional demand and additional growth
- The potential costs of transition and restructuring
- Spending Review 2022

Conclusion

4.1 All of the factors and assumptions outlined above result in a forecast gap in 2023-24 of £77m driven mainly by additional inflationary costs, and Childrens Social Care pressures.

4.2 Largely as a result of the assumptions regarding the successful implementation of the Childrens Improvement plan and the consequential reduction to costs resulting in spend returning closer to benchmark levels (mainly through reducing Agency staff, and CLA and placement numbers to benchmarks over time), the gap then reduces to c£72m in 2024/25 and c£64m by 2025/26.

4.3 These c£213m of additional costs would not be bridgeable by the Council's reserves, and significant actions will need to be taken. This will either include additional funding from Government or partners, or significant reductions to Council expenditure budgets with consequent impact on local services.

4.4 A large number of mitigations are currently being explored to reduce the forecast budget gap.

4.5 It should also be noted that there are unprecedented levels of uncertainty, and the forecast gap will be subject to change as we become better informed about international issues, the national economy and cost of living crisis and the future of local government finance.

4.6 The council will be lobbying government for additional funding and support sector campaigns / lobbying regarding a sustainable level of funding and funding mechanism for local government.

5.1 ANNEX A: Current Cost base, Savings approved to date and reserve levels.

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 c£1.2bn of spend, it cannot spend directly £296m which is controlled by schools. This leaves, in 2022-23, a gross expenditure budget of £897m (£388.5m net expenditure) to fund non-school activity.

Budget split between Schools and Council

2020/21	**Gross Exp £m**	**Net Exp £m**
Council Services	897.3	388.5
Schools	296.3	0
	1,193.6	388.5

If the £107m 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 £49m that must be spent on Public Health activity and the £35m capital financing budget are excluded from the gross expenditure budget, this leaves a much smaller gross cost base, £648m, from which to drive out further savings.

The gross budget also includes significant spending on services for example, sports, culture and planning, that recover costs by charging customers and clearly this spending cannot be directed elsewhere without the risk of reductions in income.

Of the net budget of £388.5m, 30% is allocated to Adult Social Care in the Health and Wellbeing department, and Children's Services accounts for a further 35%. 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.

	Gross Budget £ms	Net Budget £ms	% of Net
Health and Wellbeing	247.9	117.6	30%
Children's Services	523.5	134.1	35%
Department of Place	127.9	67.9	17%
Corporate Resources	207.2	51	13%
Chief Executive	5	4.6	1%
Non Service Budgets	5.8	5.8	1%
General Fund	79	7.4	2%
Total Council	**1,193.60**	**388.5**	**100%**

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 £310m.

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 2022-23, and it looks increasingly like the savings will not be deliverable in full.

c) Reserves

At 31st March 2022 reserves stood at £278.4m (Council £231.8 and Schools £46.6m).

	Closing Balance 2019-20 £m	Closing Balance 2020-21 £m	Opening Balance 2021-22 £m	Net Movement	Balance as at 31st March 2022 £m
Council reserves	207.0	256.5	256.5	-24.7	231.8
Schools Delegated budget	31.9	42.9	42.9	3.7	46.6
Total	238.9	299.4	299.4	-21.0	278.4

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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 2022/23, it was determined that a level of £19.5m remained an appropriate figure. With the exception of this

reserve, which is set at the minimum prudent level expected by external auditors, all other reserves are earmarked for specific purposes and known future costs and therefore they are not readily available to fund any budget gap.

The Council does have some flexibility with some reserves to support the MTFS, as some reserves are not needed for a number of years. The Council could potentially draw down upon some reserves, subject to those reserves being replenished in time to fund future known costs to prevent budget pressures in future years.

All 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.

Although the Council had relatively robust levels of reserves, reserve levels are expected to reduce significantly in 2022-23.

Additionally, c£18m of S31 Business Rates Grant Reserve that contains both the Councils share of Section 31 grants and Tax Income Guarantee Scheme compensation will be drawn down at 2022-23 year-end to fund the remaining spreading of the 2020-21 Collection fund deficits, and the repayment of the 2021-22 deficit.

The 2022-23 budget has also approved further reserve reductions of approximately £13.65m next year.

Any year end Council wide overspend in 2022-23 would also have to be bridged using reserves.

The total value of revenue balances held by maintained schools at the end of 2021/22 was £46.6m. The Council cannot use School balances in support of the Councils budget.