Bristol City Council
Medium Term Financial Plan

2017/18 – 2021/22

Contents

1. Introduction

On 21 February 2017 Council agreed the annual 2017/18 budget, directorate spending limits and the Capital Programme covering the period up to 2021/22. A commitment was given in the budget report to the development of a Medium Term Financial Plan (MTFP) later in the financial year.

The MTFP is a key part of the Council's Policy and Budget Framework and is intended to 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. The disaggregation of the annual budget setting process from the development of the MTFP has allowed time to assess the Council's actual 2016/17 financial outturn, build on the existing plan and update financial planning assumptions to reflect known local and national changes.

The MTFP comprises of two parts. Part 1 takes into account the financial impact of the measures implemented in the past year, considers the financial outlook for the Council over the next five years, and builds on the five year outlook included in the 2017/18 budget report. In Part 2 the Council sets out its plans and strategies for managing resources and delivering the corporate priorities against this financial outlook.

The MTFP provides the financial context within which the Council budget will be set and the financial planning assumptions will need to be kept under constant review given the increased level of uncertainty in the financial and economic climate.

2. Executive Summary

The MTFP is the means by which the Council attributes resources to the delivery of its core responsibilities and policy objectives. This document sets out the resourcing principles that will be used to balance our continually reducing resources across ambition, core responsibilities and need to fix the basics and transform the Council in a significant number of areas.

The MTFP is based on a financial forecast over a rolling five-year timeframe from 2017/18 to 2021/22 and will ensure resources are aligned to the outcomes in the Corporate Strategy.

The last five years have been a time of unprecedented change for the Council and along with other local authorities the Council has faced a year on year decline in Government funding. The financial challenge is likely to remain for the next five years, with further funding uncertainty following the recent General Election and subsequent Queens Speech, the UK's vote to leave the European Union (EU), together with an ever increasing demand for a range statutory and core council services. This is likely to herald more instability in the short to medium term and the consequences will need to be carefully considered in the annual refreshes that occur over the MTFP period.

In order to effectively plan our finances for the next five years, the Council requires greater funding clarity from the government about their plans for funding local government. More specifically adult social care, 100% business rate retention and appeals, funding for schools, high needs, early years sector, the reformed local authority role in education and the capital framework upon which local authorities rely on for investments.

Despite the uncertain climate the Council, like all other councils, must be prudent and make estimates for the future in order to set balanced budgets over the next few years and shape services according to the funding available. Overall it is now estimated that the Council may need to close a funding gap in the region of £46.7 million over the financial years 2017/18 to 2021/22 (representing a net increase of £4.6million from the position reported to Council in February and the reasons for the movement are set out in the main body of the report). It must be emphasised that this is an estimate and the position could clearly change over time.

Measures to bridge this funding gap will be over and above the £62m of propositions already outlined in the 2017/18 budget report. The Council is proposing to respond to the financial challenges in a systematic and planned way through principles based around three inter-related areas:

- Spend - Approaches to enable funds allocated to be effectively managed and prudently utilised.
- Invest - provides the opportunity for a diversified investment portfolio that can deliver core services and the strategic objectives.
- Save - derived from principles that facilitate Self-sufficiency and transformation of our approach and assets.

The underpinning resourcing principles are intended to provide a transparent guide to the Council's financial planning over the medium term.

The Council will have to make very difficult choices in the years ahead about which services to prioritise. We have outlined the principles which can enable that we maintain support to priority front-line services and seek to prioritise those services that are most needed, balanced with our duty to deliver core functions. We will continue to review the services we deliver and apply the key elements of the MTFP. This will ensure that reducing resources are used to maximum effect and allow the Council to continue to deliver new and better ways of working and invest in ways to improve the efficiency of services provided; to ensure that services remain fit for purpose in the context of smaller budgets.

This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. This is an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes whilst ensuring our collective resources are used to maximum effect.

3. Governance

The Council's Policy and Budget Framework and the Financial Regulations provide guidelines in relation to the Financial Planning arrangements. The MTFP process has involved elected members, typically through a series of briefings, to inform, scrutinise and scope the high level proposals during development. This has allowed officers to present the evidence gathered and formulate proposals in an iterative manner.

The transition from resourcing principles to reconfiguration of budgets in line with Council priorities will continue to involve officers, elected members and scrutiny. Through the process we will also engage a wider spectrum of partners and citizens, with the output feeding into budget consultation and thereafter the recommended budget upon which Council approval will be sought.

The Delivery Assurance Framework established to monitor the 2017/18 pipeline of budget activity will oversee this process. The Executive will review the most up-to-date information available and monitor progress as we formulate the longlist of budget options / propositions. They will ensure appropriate escalation of issues, utilisation of additional funds and delivery within the required timeframe.

4. Council Priorities

The Council approved its Corporate Strategy 2017 - 2022 on 21 February 2017, which set out the vision for Bristol and the priorities to be delivered.

"Our vision is for Bristol to be a city:

- In which everyone benefits from the city's success and no-one is left behind;
- Where people have access to decent jobs and affordable homes;
- In which services and opportunities are accessible;
- Where life chances and health are not determined by wealth and background;
- That leads on tackling climate change and the damaging impact of air pollution;
- Which is easier to get around and has improved public transport."

"Aspiration and equality lie at the heart of the Mayor's vision for building a better Bristol, which identifies seven key commitments to address during the next five years:

- We will build 2,000 new homes – 800 affordable – a year by 2020.
- We will deliver work experience and apprenticeships for every young person.
- We will not impose future Residents' Parking Schemes and will review existing schemes.
- We will protect children's centre services.
- We will increase the number of school places and introduce a fair admission process.
- We will put Bristol on course to be run entirely on clean energy by 2050 and introduce a safe, clean streets campaign.
- We will be a leading cultural city, making culture and sport accessible to all."

This MTFP seeks to complement the Corporate Strategy, setting out a framework to ensure the Council lives within its means and targets available resources to the priority areas above. The priorities above will need to be balanced against our core functions, which for the purpose of this plan have been defined as those that are based on meeting statutory or mandatory obligations as well as those functions against which we are regulated and inspected.

5. Part 1: Financial Outlook

The financial outlook takes into account the implications of the following over the next 5 years:

- Forecasted future resource levels for both revenue and capital.
- Relating service demands and priorities comparative to the available resource.
- Forecast impact of changes on both the demand for services and likely funding due to:
    - Global, national and local economic factors;
    - Demographic changes;
    - Technological advances;
    - New legislation; and
    - Policy initiatives by both the Government and the Council.

There will always be an element of risk and uncertainty in these estimates, which will need to be managed.

This section of the report also reflects further key financial risks to the Council which need to be considered in the longer term but aren't quantifiable or sufficiently definitive to include in the baseline position. These will need to be closely monitored and managed through contingencies and reserves.

5.1. Background and Context

Bristol is a prosperous city. National surveys and media consistently rate Bristol as one of the best UK cities to live in. This acts as a draw for young people and families to live and settle in the city. Bristol's cultural and educational offer, as well as increasing employment opportunities, is expected to increase the number of people who want to live, work and do business in the city over the forthcoming years.

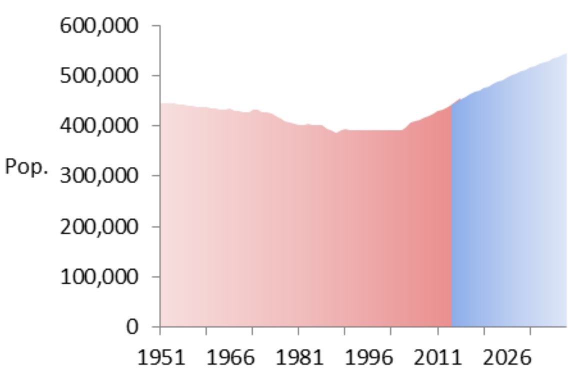
The affluence that draws people to Bristol sits alongside significant levels of poverty and inequality in the City.

Population

The Office for National Statistics estimates a population of 459,000 for Bristol in 2017. If recent trends continue, the total population is projected to increase by almost 100,000 over the next 25 years to reach a total population of 546,000 by 2039. This is a projected increase of 23.3%, higher than the projection for England of 16.5%. The long term trend is shown below.

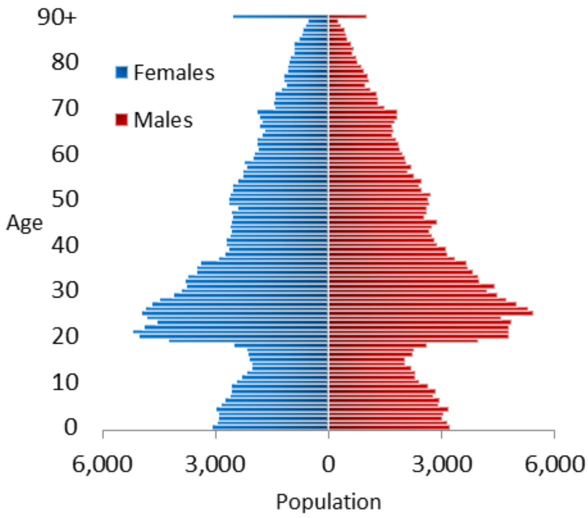
Over the next five years Bristol is projected to have an additional 20,000 people, increasing to around 480,000.

Figure 1: City of Bristol population estimates (ONS data, 2016)



Population change is projected to include continuing high levels of births in Bristol, low levels of net international migration relative to the last decade, gains from which will be offset by more people leaving Bristol to live in other parts of the UK than moving to Bristol from other parts of the UK.

Figure 2: Bristol Population pyramid (ONS data, 2016)



This age structure results in high numbers of births and low numbers of deaths compared with other local authorities of a similar size but with older age structures. The population pyramid above demonstrates that Bristol has a relatively young population compared to other UK local authorities.

Housing

There is a considerable demand for housing in Bristol and this is growing. The neighbourhoods that do not share the city's prosperity often have insufficient good housing, transport and access to employment opportunities.

183,900 households

projected to increase by 11% by 2022

(DCLG mid-2012 estimate)

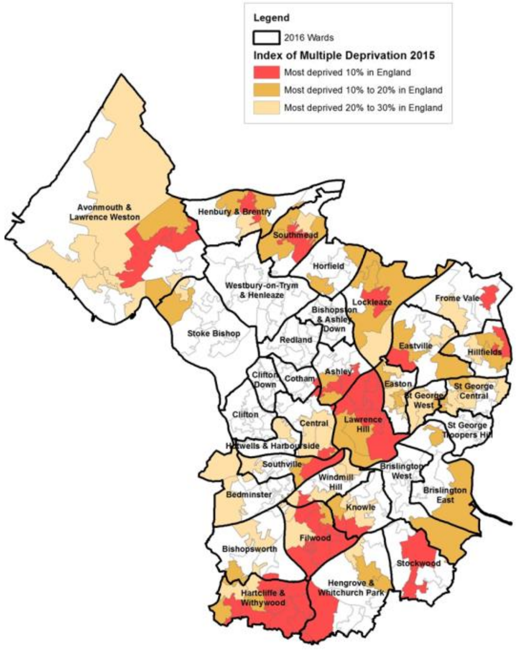
Due to high demand for housing in Bristol, there is a lack of choice facing potential tenants and homeowners in Bristol. This is resulting in increased rents and house prices. The Welfare Reform Act brought in numerous changes that affected the income of people in Bristol and their ability to afford their rent. Many more homes are needed to meet demand, while Government subsidies for providers to build affordable housing have been removed in recent years.

£198,556 - average house price. Since 2005, average house price in Bristol increased by 29% compared to 16% increase for England and Wales over the same period. (Land Registry House Price Index information for February 2015)

Deprivation

Within Bristol there are significant levels of poverty and inequality. Bristol continues to have deprivation 'hot spots' that are amongst some of the most deprived areas in the country and these can lie adjacent to some of the least deprived areas. In Bristol, 42 areas are among the 10% most deprived in the country and 6 areas are in the 1% most deprived. Some 16% of our residents are unfortunately living in deprivation.

Figure 3: Bristol Deprivation by ward (Index of multiple deprivation 2015)



Education

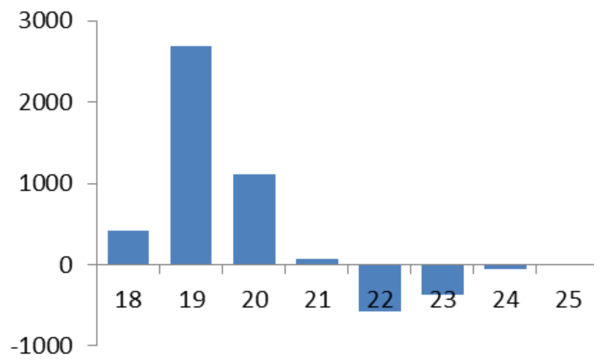
In a city with a rapidly growing population there is an increased demand for schools. A major primary school programme is complete but we will need more secondary places. The funding that the Council receives for education and skills services is reducing and school budgets are challenged. In addition, the funding from Government for children with special education needs is insufficient to meet the demands of a growing population in the city. There are large discrepancies across different areas in Bristol. In some areas, only 56% of children have the chance of attending a good school compared with 99% in others.

More than 83,000 people live in areas within the city ranked in the 10% most deprived nationally in relation to education skills and training, with South Bristol particularly affected. Within Bristol there is a considerable inequalities gap in the percentage of children living in low income families.

Further Education

Bristol is host to two major universities. Each plays a key role in the city's economy and makes a significant contribution to the city's social and cultural life.

Figure 4: Net migration to Bristol by age group (ONS)



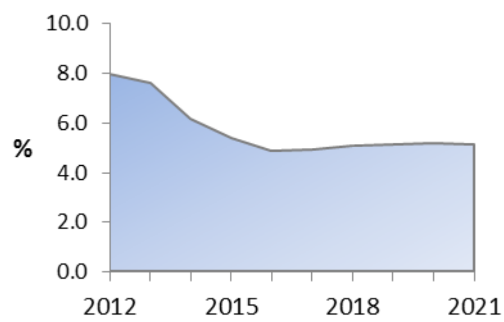
The presence of the Universities creates a net inflow of 18-20 year-olds moving to Bristol. Some students then move out but Bristol retains a high proportion of graduates who moved here for their studies and the city also attracts a high number of graduates from elsewhere compared to other Core Cities.

The 2011 census estimated that almost 8.3% of Bristol's total population was made up of full time students, representing a 40% increase on the previous census (2001). The management of rising student numbers and the need for an adequate supply of good quality accommodation in appropriate locations present both opportunities and challenges.

Employment

In September 2016 the employment rate in Bristol was 75.9%, showing a marked increase (3.3%) over the previous five years. The employment rate for Bristol remains above that of the UK (73.7%).

Figure 5: UK Unemployment Forecast 2012-2021 (ONS data)



In December 2016, the ONS estimated that 5% of the population of Bristol is unemployed, higher than the UK average of 4.8% and the South West England average of 4.1%. This shows a much lower rate of unemployment than in previous years. The Office for Budgetary Responsibility predicts that unemployment in the UK will rise marginally in 2017 to 2018 and level out at around 5.1% over coming years.

A growing city offers greater opportunities for the local economy but it also increases demand on the city and the Council. Housing, education, environment, health and social care services are all affected. It is essential to maintain a balance between the risks and opportunities presented by such growth. This MTFP outlines principles by which a balanced investment portfolio (subject to the ability to leverage additional funding from public and private sector) can meet the financial pressures of a growing city.

5.2. Economic and Financial Context

This financial outlook is set in the context of the wider global financial and economic outlook. Local Government funding is subject to both national and international influences. This can have a significant impact on the level of services required to be provided and the ability of local authorities to provide them. Understanding these projections and plans is essential in framing our local financial planning.

The global economic situation continues to be challenging. Excessive debt continues to be a major issue for governments, corporations and many households. The International Monetary Fund's Global Financial Stability Report notes that there has been no 'deleveraging' of overall debt since the financial crisis and unsustainable levels of global debt increase the risk of future financial instability.

The latest Global Risks Report from the World Economic Forum warned of new threats to social cohesion from cyber dependency, robotics and the artificial intelligence revolution, and continued to highlight climate change and an ageing population amongst the other top risks to the global economy.

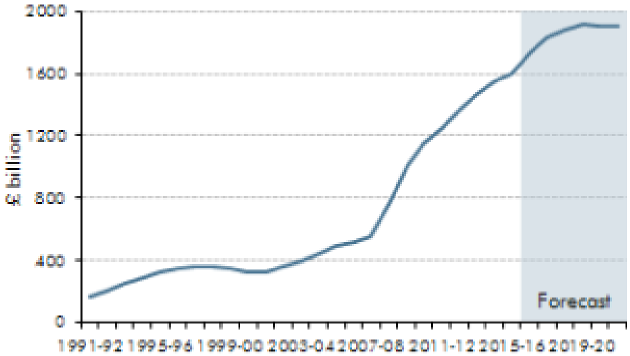
The Government's current economic and fiscal plans were updated in the Spring Budget, published in March 2017. This is published alongside an analysis by the Office of Budget Responsibility (OBR) who analyse the impact of Government's economic and fiscal policy.

Figure 6: Annual Changes in headline economic trends, 2013 to 2021.

Annual Changes	2013	2014	2015	2016	2017	2018	2019	2020	2021
Demographic Growth 65+			0.85%	1.01%	1.00%	0.99%	0.98%	1.30%	1.28%
Net Migration (18-21)			4,574	4,447	4,376	4,337	4,246	4,152	4,067
Net Migration (22-35)			-1,363	-1,537	-1,686	-1,812	-1,896	-1,993	-2,048
GVA	-1.9%	3.0%	2.7%	2.8%	2.5%	2.3%	2.3%	2.5%	2.5%
Employment (%age of 16+)	57.8%	58.5%	58.8%	58.8%	58.7%	58.7%	58.4%	58.3%	58.3%
Average earnings	2.0%	1.8%	1.9%	2.2%	2.6%	2.7%	3.0%	3.4%	3.6%
National Minimum Wage	1.8%	1.9%	3.0%	3.1%	5.2%	2.8%	3.4%	3.3%	3.9%
National Living Wage				10.8%	4.2%	5.3%	5.1%	5.4%	4.0%
Business Rates Multiplier	2.8%	2.3%	2.3%	0.8%	-3.6%	3.6%	3.1%	2.0%	2.0%
Business Rates Rateable Value	0.4%	0.3%	0.5%	0.5%					
House Prices	2.6%	8.0%	6.0%	7.6%	6.5%	4.0%	4.4%	4.5%	4.6%

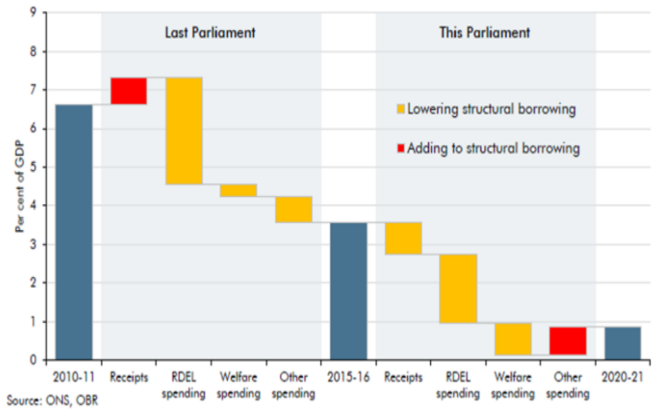
The UK has a significant financial deficit, the annual difference between national tax receipts and spending, which the OBR predict, will be approximately 0.7% of GDP by 2022. At this point the cash total of Government debt will reach £1.9 trillion.

Figure 7: UK Government Debt in cash terms (OBR March 2017)



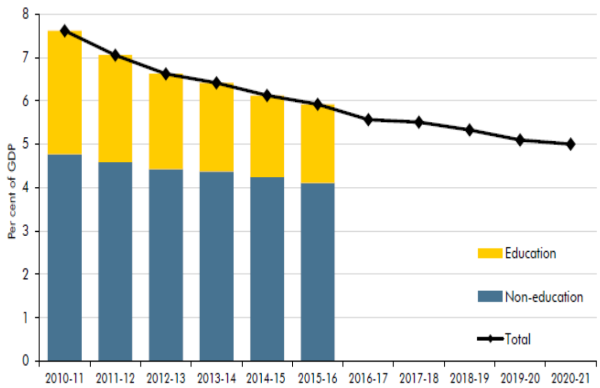
As Government look to close the deficit between tax receipts and spending, the greatest contribution to this is a reduction in the Government departmental expenditure (RDEL) which includes expenditure on Local Government through centrally raised taxes. Planned reductions in welfare spending will also have an impact on services provided by Local Authorities.

Figure 8: Government spending (OBR March 2017)



Government are reducing the proportion of total spend on Local Authorities, from 7.6% of GDP to a forecast 5% by 2021.

Figure 9: Local Authorities (England) Net current Expenditure (OBR March 2017)



It is important to note that projections are largely based on the continuation of past trends. Through the City and the Council's intervention and the implementation of various initiatives aimed at sustainable inclusive growth, it is possible that these trends can change positively over time

The long term forecasts for national spending show there will be continued reductions in Government spending. Therefore we need to prepare for continued reductions in expenditure directly allocated to local authorities and a lower revenue base for delivering services. We need to plan our resources on this basis and increase our resilience to social, technological, environmental and economic changes. A key message from the OBR is that the most recent forecast is the most uncertain they have produced.

5.3. Five Year Financial Forecast

In February the Council set its annual budget and forward look, detailing key planning assumptions. The difference between forecast income and expenditure was expected to be £106m by 2021/22 if no action was taken. Whilst no decision has yet been made regarding levels of Council Tax (which will be considered annually), the forecast assumes the maximum increases in Council Tax (4.99% in 18/19 and 1.99% thereafter) If there are no increases in Council Tax, we could expect the gap to increase by a further £23m over this MTFP period.

In response, £62m of propositions were outlined; £33.1m of which sought to deliver a balanced budget in 2017/18 and the residual £29.1m noted as potential contributions towards the gap. A residual £42m was identified has being required to close the gap by 2021/22. The key reasons why there is a ‘gap’ in our finances are described below.

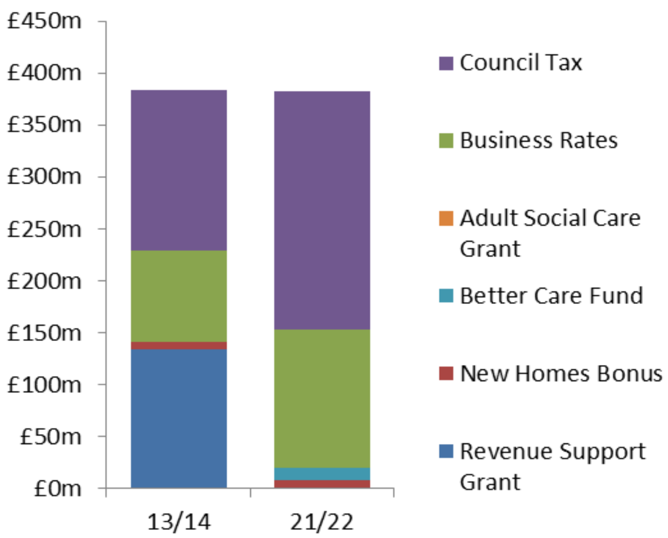
Revenue Expenditure

Reductions in Government Grants

Local Government previously received central support grants from Central Government as a contribution towards local services. This has been reducing year on year as the Government seek to reduce the National deficit.

Whilst absorbing an array of pressures as outlined in the subsequent sections, between 2013/14 and 2021/22 the overall funding available to Bristol City Council will have remained flat, with a significant move in the source of our funding from centrally allocated grants to locally raised funding through business rates and council tax.

Figure 10: Comparison of funding of net revenue budget between 2013/14 and 2021/22



There have also been reductions to specific grants provided by Central Government such as the Education Services grant and the Public Health grant.

Based on Government estimates the Core Spending Power of Bristol City Council will have reduced by 1.2% between 2015/16 and 2019/20, which adjusting for inflation is expected to be a 7.6% real terms reduction.

Council funding is reducing but will become increasingly dependent on locally raised Council Tax and business rates, which increases the responsibility on the Council to develop strategies to manage these sources of income closely.

Increased Demand

As outlined above, the population of Bristol is expected to significantly increase over the next five years. This increases demand for statutory services such as housing, schools, social care, waste collection and open spaces.

Customer expectations are continually rising in all aspects of life. Speed of access and growth of the information-rich society has given consumers more choice and led them to be more specific regarding the services they require and more demanding of the services they receive.

Increase in population will also increase the amount of Council Tax income and also have an impact on the level of business rates as new jobs and businesses are created within the City.

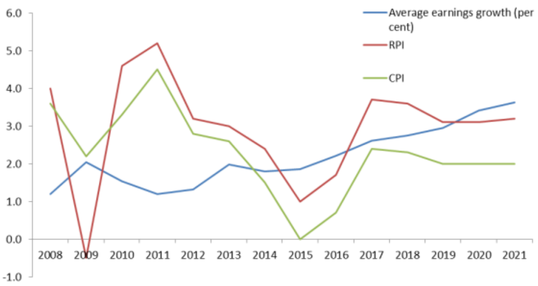
Inflation

Inflation is a large additional cost each year as cost of services increase. This includes pay for Council employees as well as contracted services and supplies, such as energy.

The National Living Wage is expected to have a significant impact on the cost of services commissioned by the Council.

At present the Council has the ability to increase Council Tax by up to 2% each year without a referendum (though this is subject to Secretary of State's discretion). We also have flexibility to levy an additional 3% precept for Adult Social Care (up till 2020). Business rates increase annually by RPI inflation each year (which changes to the generally lower CPI inflation in 2020). Both maximum Council Tax and forecast business rates increases are lower than the forecast RPI inflation over the next five years.

Figure 11: Inflation and Average Earning Growth 2008 to 2021 (OBR March 2017)



Inflation alone will increase the cost of delivering the same services by up to £12m every year.

Inflation on cost of delivering services is expected to be higher than that assumed to be applied to the Council's main sources of income.

Legislative Changes

In recent years new legislative changes made impacting Local Government have often resulted in new burdens. Some have been supported by grants; however these grants are often insufficient to meet the entirety of the financial pressure of the new legislation or are time limited.

For example, the Children and Families Act places an additional burden on Local Government to support foster carers after the child turns 18. The value of the grant in 2016/17 for Bristol was £0.3m, while the estimated pressure is over £1.3m.

100% Business Rates retention gives Local Government opportunities but could also expose individual authorities to risk from appeals. It is unclear how this will be managed nationally.

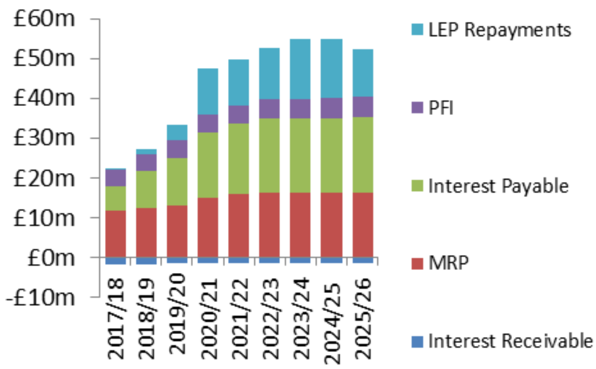
New legislation and changes in funding often have unintended consequences and create additional pressures on already stretched Council services.

Financing the Capital Programme

As set out in the Treasury Management Strategy our debt is set to increase from £535m at April 2017 to £962m by March 2022. There are also significant repayments in the next 10 years to the Local Enterprise Partnership (LEP) for developments to generate economic growth in key areas of the City.

The annual cost of this capital programme is expected to increase from 8% of our revenue budget to over 12% within 5 years.

Figure 12: Financing the Capital Programme 2017/18 to 2025/26



In the absence of a full asset lifecycle model, the replacement, maintenance and running costs over the whole life of the asset are not always captured in the business case and no provision is made in the budget at the decision point.

Our ambitious capital programme of investment has a large impact on the Council's annual revenue budget, creating long term costs.

These two areas must be simultaneously reviewed and implications clear in decision making.

The decisions we take now will influence the demand for services whether we intend them to or not; we will manage demand by 'design' or by 'accident'. The challenges for us are to look at people and their needs in the round. We need to take a long term view to ensure that changes made now mitigate, rather than instigate, the need for public services in the future.

Capital Programme

The Council has an ambitious capital programme of over £900m across the next five years. A significant proportion of this programme is aligned to investments that will generate long term economic growth across the city, such as transport infrastructure and developing the Bristol Arena and Temple Quarter Redevelopment; with a newly incorporated Housing investment in the 2017/18 budget.

Figure 13: Bristol City Council Capital Programme Funding 2017/18 to 2021/22

	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m	Total £m
Original Programme	**213.5**	**186.7**	**199.5**	**165.5**	**135.3**	**900.5**
2016/17 Delayed/Deferred Projects	3.0	-	-	-	-	-
Revised Programme	**216.5**	**186.7**	**199.5**	**165.5**	**135.3**	**903.5**
Financed by:						
Capital Receipts	0.5	15.0	49.8	49.8	40.1	155.2
Capital Grants	46.8	18.2	13.0	13.0	12.4	103.4
Revenue	17.5	12.0	10.0	10.0	10.0	59.5
Prudential Borrowing	124.7	105.5	92.7	58.7	38.8	420.4
HRA	27.0	36.0	34.0	34.0	34.0	165
Total	**216.5**	**186.7**	**199.5**	**165.5**	**135.3**	**903.5**

Note: £3.0m is attributed to schemes delayed or deferred from 2016/17 with delivery now planned in 2017/18. This will increase the overarching capital programme value from £900.5m to £903.5m over the 5 year period.

5.4. Recent Changes to Outlook

Since setting the five year financial outlook in February, several forecast assumptions have changed and therefore the five year outlook has been adjusted. Key assumptions have been reviewed and will be refreshed on an annual basis and also when developing the annual budget.

Recent changes reflect an increase of £4.6m to the forecast 'gap' by 2022, however, due to the large business rates impact anticipated in 2018/19, the gap is accelerated by mitigations being required sooner than originally anticipated. A summary of the changes is set out below.

There are material increases in the mitigations required in 2018/19 and again in 2020/21. The 2017/18 budget was balanced through using one-off income from the collection fund which will need to be addressed on a continual basis in 2018/19 and an anticipated deficit on the collection fund based on year to date collection.

In 2020/21 there is a £15m increase in capital financing costs which includes repayments to the Local Enterprise Partnership for investment aligned to future business rates generation and developing economic growth projects.

From the original £62m savings, only £2m were planned for beyond 2020.

Figure 14: Updated Bristol City Council budget 'gap', 2017/18 to 2021/22

	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m
Original 'Gap'	**0.0**	**14.3**	**22.5**	**40.9**	**42.1**
Review of Business Rates forecast	0.0	8.6	1.5	2.4	3.9
Under delivery of savings	4.9	2.8	2.8	2.8	2.8
Care Act pressure	0.0	-0.3	-0.7	-1.9	-2.4
Apprentice levy	0.0	-0.4	-0.4	-0.4	-0.4
Waste	0.2	0.7	0.7	0.7	0.7
Delay of capital financing costs	0.0	0.0	0.0	-1.2	0.0
Movement	5.1	11.4	3.9	2.4	4.6
Revised 'Gap'	**5.1**	**25.7**	**26.4**	**43.3**	**46.7**

Delivery of Savings and 17/18 forecast

£33.1m of propositions were attributed to 2017/18. Of these, as at Period 3, £4.9m of the 2017/18 savings are currently indicating a low delivery confidence and have been rated as 'at risk'.

Of these, £2.1m are perceived to be deliverable although not within original timescales. This creates a one-off pressure in 2017/18 but does not affect the five year forecast. However if the remaining £2.8m is undeliverable, alternative mitigations will need to be identified to ensure a balanced budget is achieved.

Apprentice Levy

The apprentice levy is now expected to be £0.4m lower than previously reported due to guidance on treatment of maintained schools. Whilst this is a benefit to the Council's finances, the pressure will transfer to the Education sector and be borne by individual schools.

Care Act

The original baseline included £2.4m pressure by 2022 from 'cap on care' and changes to the asset threshold for financial assessments from the Care Act 2014. Due to uncertainty over future plans for social care, decisions over these key areas remain uncertain. Whilst this remains a key financial risk to the Council it has been removed from the baseline and will be managed through risk contingencies.

Business Rates

Due to recently settled businesses rates appeal and subsequent review of the adequacy of provision for appeals, there will be a detrimental impact on the collection fund in 2017/18 as the provision is increased. This will transfer to the general fund in 2018/19.

Growth in business rates is also lower than anticipated in the enterprise zone and could be further impacted by the results of agreements on future relationship with the European Union.

Waste Disposal

Pressures are emerging due to increase in volumes of waste and the proportion that is residual waste (black bags). This is attributed largely to demographic growth causing increasing volumes of waste and the improved economic climate which can cause changes to behaviour. In addition the recent devaluation of Sterling against the Euro and reducing demand from abroad has put pressures on the cost of exporting the refuse derived fuel from the disposal process and can result in more expensive diversions to landfill.

Capital Financing

Due to delays in expected timescales of some large capital schemes funded by borrowing, the capital financing costs will be delayed. This has deferred the requirement of £1.2m Minimum Revenue Provision from 2020/21 for one year.

5.5. Update on Emerging Financial Risks and Opportunities

A key strategy of managing the medium term financial outlook is making provision for emerging financial risks. These are risks which are much more uncertain in their predictability and/or their impact. These are managed through contingency budgets and managing the level of our reserves.

We must ensure that our reserves are kept at an appropriate level to enable the Council to respond to potential shocks, stressors and emergency situations that we may encounter in the future, and plan effectively for our known and potential one-off liabilities.

Exit from the European Union

The process the UK's exit from the EU is still in the early stages. Any agreements and subsequent arrangements put in place could have an impact on a range of areas such as trade, skills, and EU funding. They could also offer opportunities such as new economic growth through existing twinning initiatives, other international projects and partnerships both within and without the EU.

We will continue to work collaboratively with treasury advisors to assess potential budget impacts whilst the Government attempts to ensure a smooth transition to a new economic relationship between the UK and the EU. This will include clarifying the procedures and broad objectives that will guide the process and refreshing the MTFP as consequences become clear.

Economic Growth and Volatility of Business Rates Funding

The retention of 100% of the growth in business rates revenues for pilot schemes provides councils with the incentive to grow their rates revenues (e.g. by promoting economic and property development).

Under the terms of the pilot scheme, the Council will be allowed to retain 94% of any net business rates income collected. 1% will be paid to Avon Fire and Rescue Authority and 5% to the West of England Combined Authority.

Resets of the system prevent very large divergences in revenues on an indefinite basis, and partial resets were originally proposed to prevent large divergences if growth is retained in full. This can be a trade-off between the objectives of 'equalisation' on one hand and 'incentives' on the other.

Local growth and enterprise zones offer areas of greater revenue retention. If these aren't carefully managed, this can skew councils' incentives to promote development in the particular geographic areas covered by the zone at the expense of other areas, or attract occupiers to these locations from elsewhere in their locales.

There is much uncertainty in the detail of how the rates retention system will work beyond the current pilot period. In particular, it is unclear what additional responsibilities will come with the additional funding and how the appeals process will work. National plans to compensate councils for revenue losses as a result of backdated appeals under the national 100% retention scheme needs to be clarified as 100% business rates retention is less attractive if that means 100% of the risk associated with appeals.

West of England Combined Authority

The West of England Combined Authority (WECA) is made up of three of the local authorities in the region – Bath & North East Somerset, Bristol, and South Gloucestershire. Working with partners, including North Somerset Council and other local service providers, the primary aim is to deliver economic growth for the region and address some of the challenges, such as productivity and skills, housing and transport.

The new Combined Authority gives new financial risks and opportunities for Local Authorities as £900m (over 30 years) of funding is devolved from Central Government.

Housing Growth Impact

There is a considerable housing challenge in Bristol and this is growing. The Housing Strategy is beginning to address this; however the financial implications are not yet factored into the financial model.

Further work will commence to quantify both the income generation and costs pressures associated which will be included in the annual budget. This will impact on more than just the levels of Council Tax raised. Increased investment also has the benefit of improving the UK's long term growth potential because of its positive impact on the City’s overall economic capacity, derived from strengthening labour mobility and work incentives. On the converse, the additional income and GVA needs to be viewed in the context of potential increased demand for Council services, such as community facilities, health, sport & recreation, waste, and crime & anti-social behaviour.

Pressures on other public sector organisations

As explained in the financial outlook, all public sector organisations are under increasing financial pressure as changes in funding and increases in spending resulting from inflation and demand are not matched.

Schools and Special Educational Needs funding, the NHS, social care and police numbers are well versed areas nationally with emergent pressures to name just a few. However there are a number of historic pooled and jointly funded arrangements between these partners which deliver key early intervention work and when considering changes to these arrangements it should be balanced with an assessment of the wider knock on impact and increase costs to other public sector partners in these arrangements.

It is recommended that public sector partners collaborate on key themes such as social care to understand where the problems are that need to be addressed, to influence the market and to target spending in ways that the evidence shows will have the most impact. We should avoid doing this in ways that will gain the most short-term gain with unintended consequences and risks elsewhere in the sector.

Fiscal Settlement and Wider Fiscal Policy Changes

The Local Government Finance Bill was not re-introduced in the Queen's Speech, leaving a significant degree of uncertainty in future funding for the following areas:

- *Local Government Fair Funding Review*
- *Adult Social Care*
- *Business Rates Retention*
- *Education Fair Funding*

The Department for Communities and Local Government indicated that the Government remains committed to delivering their manifesto pledge to help local authorities control more of the money they raise locally. They will develop a fairer system of distributing funding to councils and will work closely with Local Government to agree the best way to achieve this. Figure 15 shows that in the current Settlement Funding distribution Bristol receives above average per population.

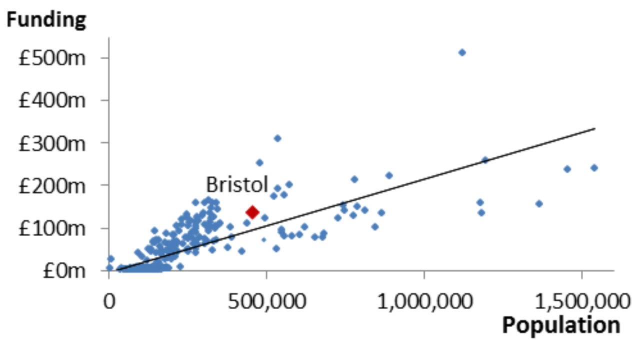
It is essential that the Council works with the Government to identify other ways in which Local Government can retain more resources locally in the future without the need for legislation.

The schools national funding formula will be introduced in 2018/19 and an additional transition fund of £1.3bn has been identified for 2018/19, and £884m for 2019/20. This will provide at least £4,800 per pupil for every secondary school. The increase will be contained within the overall departmental expenditure limit.

CIPFA are undertaking a review of the Local Government Capital Finance Framework to ensure it remains current and reflects developments in councils' investment portfolios, alongside wider institutional and economic changes.

The pressures attributed to Adult Social care are significant and the future of adult social care funding is unclear.

Figure 15: Comparison of Local Authority Funding Settlement per head of population (Local Government Settlement 2017/18)



At present this is predominantly funded by general fund. Additional sources have been announced in recent years, including the Council Tax precept, Social Care grants and now improved Better Care fund (iBCF). New funding guidance has been issued and Health Partners and the Council are currently in discussions to agree an approach to its use.

Emergency Response

In recent months the UK has experienced several large scale emergencies, such as the terrorist attack in Manchester on 22 May 2017 and the Grenfell Tower tragedy on 14 June 2017. The Council's own plans to respond and recover quickly and effectively from longer term emergency incidents are being further strengthened and may require further financial investment.

Fire Safety Measures

Following the Grenfell Tower tragedy an independent Public enquiry has been commissioned. There is a risk that any new regulations or measures that need to be implemented to ensure people living in high rise buildings are safe will not be fully funded.

Market Failure

At the same time as reduced funding for Council Services, social care markets are under intense cost pressures locally and nationally. Care services are highly dependent on staffing. There is high demand for these services locally especially within more specialist provision such dementia, learning difficulties and for children with multiple and complex needs. The Council relies heavily on these services to provide care for vulnerable citizens and will seek to work strategically with Partners to support the market and contain costs.

Pension Fund

An actuarial valuation of the assets and liabilities of the Pension Fund was undertaken as at 31 March 2016, leading to an annual increase cost spread over three years. This will be subject to a further review in every third year afterwards and is a requirement of the Administration regulations. No further provision is built into the model for increases post-2019 and a review of the Local Government Scheme position in light of Brexit will need to be undertaken.

5.6. Risk Assessment and Sensitivity

There are a number of areas within the MTFP that, should fluctuations occur in some of the underlying assumptions, could produce a significant change to the forecast.

In terms of cost pressures, the table below shows some of the areas of sensitivity and the potential annual impact over the medium term, based on the original estimate for 2017/18.

Figure 16: Sensitivity analysis of key financial assumptions

	£'m
Income	
Reduction in Council Tax Collection Rates by 1%	1.8
Reduction in Business Rates Collection by 1%	2.3
Council Tax Growth 1% lower than predicted	2.4
A further 10% reduction in Revenue Support Grant in 18/19	4.2
Expenditure	
Pay Award 1% higher	1.8
General Contract Inflation 1% higher	2.6

Given the ongoing financial pressures, it is assumed that wherever possible services should seek to contain their own service pressures but ultimately should the above materialise long term sustainable measures for bridging the additional gap will need to be implemented.

5.7. Reserves

In accordance with the existing statutory and regulatory framework, the Director of Finance, as Responsible Financial Officer, is responsible for advising the Council on the level of Reserves it should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose and councils should make their own judgements on such matters, taking into account all the relevant local circumstances.

Reserves can be held for three main purposes:

- A contingency to cushion the impact of unexpected events or emergencies – this will form part of General Reserves (previously designated strategic reserve).
- Support for one-off and limited revenue spending, to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this will also form part of General Reserves.
- A means of building up funds, to meet identified spending commitments, known or predicted liabilities. This will form part of the earmarked reserves.

The level of reserves will be reviewed annually and the principles that will be followed in establishing the reserves strategy are:

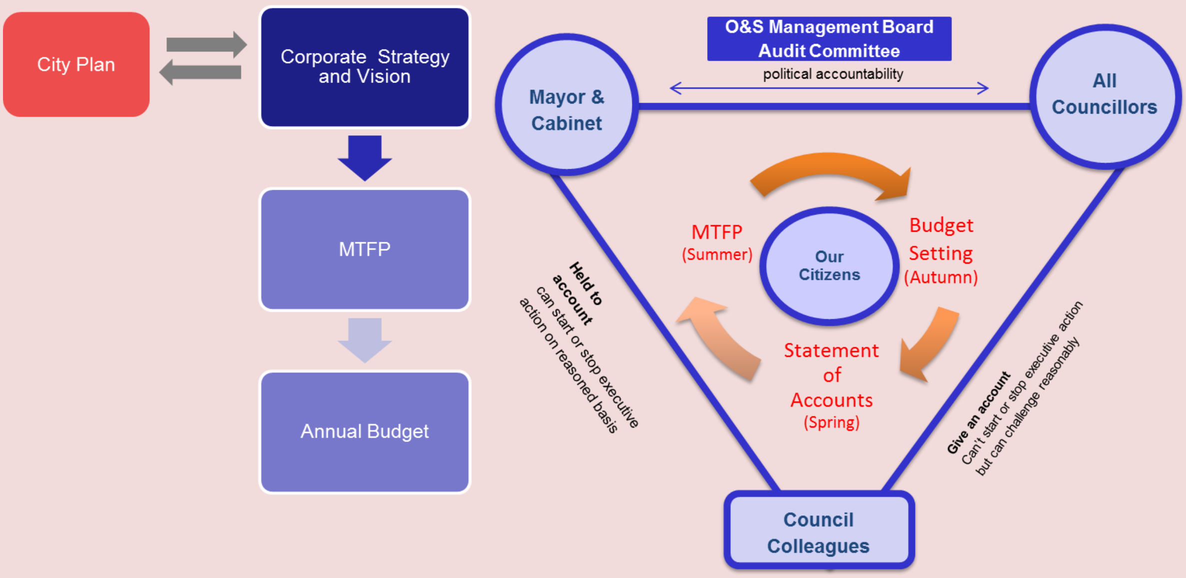
- *The level of reserves should be sufficient to ensure that the Council can comply with its statutory financial duties of setting a balanced annual budget;*
- *The level of reserves should take into account the known risks over the life of the current financial plan;*
- *The level of reserves should be capable of covering the estimated financial risk of the local authority, including contingent liabilities and insurance exposure risks*

Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option; however, it is not prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that local authorities should be particularly wary about using one-off reserves to deal with shortfalls in current funding particularly in a climate of such financial uncertainty.

6. Part 2: Our Financial Principles

The MTFP aims to ensure resources are aligned to the outcomes in the Corporate Strategy. In assessing the financial challenges outlined above it analyses our current position, developing key strategies, and tailors resourcing principles that set the financial context for the Council's resource allocation process and budget setting.

This is a process cycle that involves all internal and external stake holders but seeks to engage the right stakeholders at the right time during that process.



Putting this strategy into practice

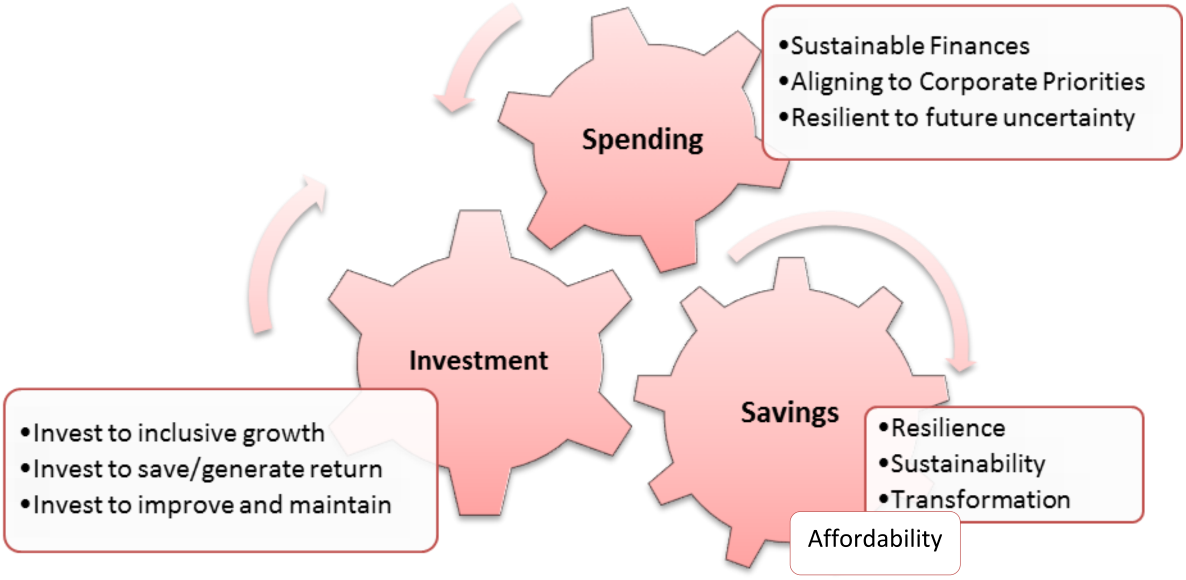
Our financial principles are formed of three key elements; spending, investment and savings. The detailed resourcing principles that underpin these elements and activities provide the tools for a consistent, transparent approach to the annual budget review.

High level propositions still remain subject to consultation where relevant and consideration of the potential equality or cumulative equality impact.

Thereafter it is the role of the Mayor, having due regard to all the details presented and available, to decide on the propositions that will underpin the budget recommended to the Cabinet and Council.

The MTFP will be subject to an annual refresh and themes and principles assessed for effectiveness and on-going relevance.

Figure 17: Resourcing principles centred around spending, investment and savings



Spending

We need to ensure that the funds allocated in view of strategic and statutory responsibilities are effectively managed, used prudently and do not via unintended consequences commit the council to unplanned expenditure.

Investment

In order to continue to deliver core services and the strategic objectives of the Council it will be necessary to diversify the investment portfolio. The principles to underpin the Council's investment strategy are in accordance with the following three themes:

- *Investment for sustainable inclusive growth*
- *Investment to improve and maintain*
- *Investment to save and generate income*

Save / grow resource

In considering our approach to bridging the budget gap, the opportunity exists to generate further savings and grow resources. The three themes underpinning this category are:

- *Self-sufficient for sustainable finances and service provision;*
- *Develop capacity and flexibility in our approach to enable greater resilience to physical, social, and economic changes; and*
- *Maximising the overall public benefit from transforming how we use our available assets.*

With the scale of the challenge ahead and in addition to the above, should a residual budget gap remain, further measures such as divestment will need to be considered in the context of affordability and the need to set an annual balanced budget.

6.1. Principles by which we will spend

While money is not the sole driver of change, there is no doubt that we are in an era of unprecedented financial challenge. We need to ensure that the funds allocated in view of strategic and statutory responsibilities are effectively managed, used prudently and do not via unintended consequences commit the council to unplanned expenditure.
An increasing proportion of our spend will be concentrated on targeted services for those most in need of our services and directed to outcomes aligned with strategic and core priorities.

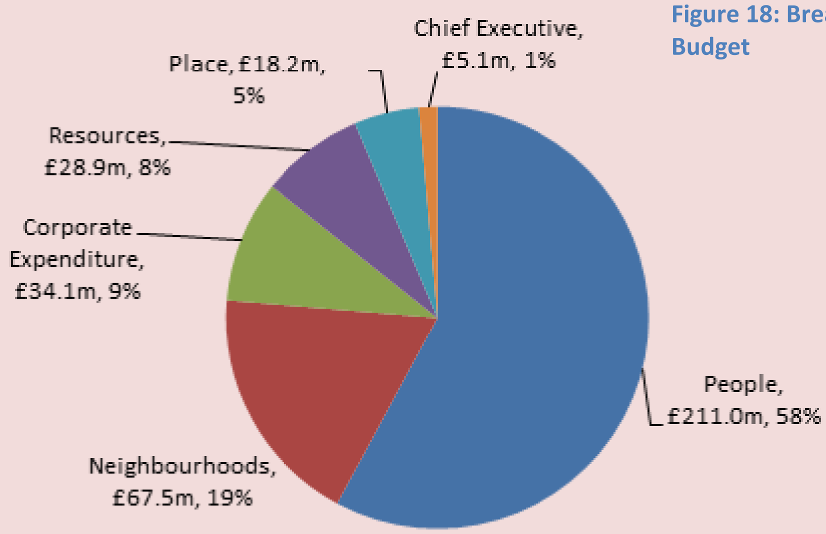


Figure 18: Breakdown of 17/18 Budget

6.1.1. Aligning spend with corporate priorities

The Council's core functions have been defined as those that are based on meeting statutory or mandatory obligations as well as those functions against which we are regulated and inspected. We will need to take into account the actual statutory, mandatory or regulatory element within those services and how critical they are in delivering our strategic priorities.

We will undertake further work to agree which areas of service fall outside of these core functions and these will be subject to a programme of targeted reviews seeking details of costs, outcomes and results.

Therefore, subject to the delivery of statutory responsibilities:

- *We will challenge all existing spend in the context of our strategic priorities.*
- *We will consider our legal obligations in providing the service and spend wisely.*

6.1.2. *Being resilient to future uncertainty*

The Council is a large employer, both directly and indirectly, and the deliverer of many important public services. Reliance is placed on the Council's sustainability and in this climate of significant uncertainty we need to ensure that we have a sufficient level of resilience in meeting these challenges. As such, financial management arrangements that were once good enough are now unlikely to be fit for purpose.

To continue to deliver strong financial outcomes in the future we need clarity on the commitments which we are entering into, flexibility for the changing environment in which we operate and elegant exit strategies that can be implemented if required.

Therefore:

- *We will be prudent; taking into account the uncertain financial outlook, locally and nationally.*
- *We will build flexibility into future contracting plans with external suppliers and providers.*
- *Exit strategies will be developed for all externally funded activity to ensure the activity remains sustainable after the funding has ended.*

6.1.3. *Maintain sustainable finances as a priority*

Council services have been challenged to produce year on year savings in recent years, and many services have already succeeded in making good progress on the latest pipeline of propositions that enable the Council's net budget to be contained. It is paramount that once the strategic vision and annual budgets have been endorsed a robust framework for the management of finances, internal costs, benefits and risks management is embedded.

In setting our annual budget we use an incremental approach, using the previous budget as a starting point and considering previous performance against budget and any incremental costs and income to set a new budget. This is a commonly taken approach as it gives a stable budget with which managers can deliver services.

Over time this approach may lead to a misaligned budget which no longer represents the cost of delivering services, both in creating budget slack or understating costs of delivering services. Recognising the capacity available, a managed rolling programme of zero-based reviews will be conducted and will examine the following areas:

- Those services which spend the most money.
- Those services identified by the Chartered Institute of Public Finance and Accountancy (CIFPA) as being above average cost.
- Those services designated as non-core (see 6.1.1. above).

Therefore:

- *We will implement all endorsed savings and efficiencies.*
- *We will maintain balanced budgets over the MTFP cycle.*
- *There will be no additional spend unless matched by savings or income.*
- *We will undertake a manageable rolling programme of zero-based budget reviews.*

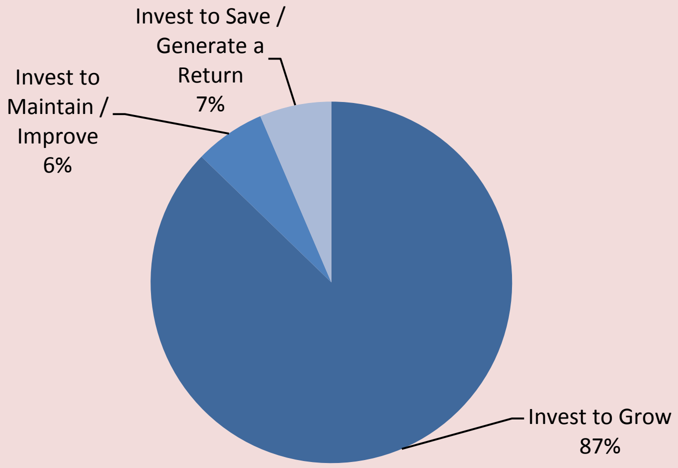
6.2. Themes by which we will invest

Over many years we have invested in assets that deliver long term economic growth and we currently have a £903m capital programme over the next 5 years. Our capital programme cannot be viewed in isolation; it influences, and is influenced by, many strategies and plans. It forms part of an integrated programme of investment for the organisation that must have the delivery of the Council's core purpose and corporate priorities as its key driver.

The overarching value of our assets is £1.3 billion and each year we need to spend money to ensure these assets are still suitable for use in the provision of services, and to invest in new assets to meet our changing needs and requirements.

Some realignment has already been factored into the programme with housing and schools programmes but more is required to deliver a more balanced programme.

Figure 19: Split of Current Capital Programme of Investment



Themes by which the Council will make new investment:

6.2.1. *Invest for sustainable inclusive growth*

These are areas where the Council will expand its capacity, to grow the economy, whilst delivering solutions to demographic, social and environmental challenges across the city.

Examples: Infrastructure, transport, housing and energy schemes, tackling multiple challenges and bringing about change.

6.2.2. *Invest to improve and maintain*

These are areas where the Council will improve and maintain the condition of core assets making provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery.

Examples: Roads, Bridges, Crematorium, Schools IT and Property Estates.

6.2.3. Invest to save and generate a return

These are areas where the Council will invest in projects which will reduce running costs, or avoid costs (capital or revenue) that would otherwise arise and invest to generate a financial return (invest to invest).

Examples: Accommodation for older people and people with disabilities, improved outcomes, children social care (housing adaptations, step down), energy, waste and other commercial activities.

6.2.4. The Capital Programme

A single capital programme will be prepared each year to cover a five year rolling period as part of the detailed budget process. This will ensure that the impact of decisions on the capital programme will be considered as part of budget setting activity. The capital programme will include both approved and provisional schemes so that we can clearly see the impact of our future capital requirements.

Therefore:

- *We will operate a clear and transparent corporate approach to the prioritisation of all capital spending.*

Management of the Capital Programme

The key risks to the delivery of our capital programme are overspending against the approved budget for a scheme, project and programme slippage where the project is not delivered in accordance within the planned timescales thereby delaying approval of the expected benefits, and delays in or non-receipt of external contributions towards the cost of the scheme.

Therefore:

- *We will create a Strategic Capital Investment Group to ensure our capital spending and the delivery of this programme is effectively managed and any material changes are endorsed in order that it can be presented for approval and published at the start of each subsequent financial year.*

Funding of the Programme

In recent years the Council’s policy has been to utilise reserves and generate receipts from its surplus assets and use these to fund capital spend and minimise external borrowing.

Therefore:

- *We will ensure that investments are affordable and sustainable.*
- *We will ensure the first call for financing will be against external generated resources, e.g. ring-fenced, non-ring-fenced grants, public and private sector contributions. The balance of funding will come from the council's internally generated resources and then external borrowing.*

6.3. Principles by which we will save

The prior year budget round identified a portfolio of activity totalling £62m (2017/18 approved and £29.1m future years noted). This MTFP goes beyond this and sets the framework to facilitate a further pipeline of opportunities to bridge the residual budget gap. This is intended to act as a catalyst to generate a further pipeline which will be necessary to ensure that the Council has a range of options that can be considered to balance its budget up to the end of the 2021/22 financial year.

A structured, well-governed and resourced approach will be required. A number of key principles have been developed from areas of knowledge, benchmarking and other Local Authority best practice, as well as our own data sources, which indicate potential opportunities exist.

Our approach to not only bridging the budget gap but also achieving greater self-reliance is categorised into three overarching blocks:

- *Capacity and flexibility in our approach to enable greater resilience to physical, social, and economic changes;*
- *Self-sufficiency for sustainable finances and service provision; and*
- *Maximising the overall public benefit from transforming how we use our available assets.*

We recognise that delivering to these principles will not be easy and will sometimes also involve difficult decisions around the model of services to ensure strategic outcomes are met within reducing resources.

Financial Resilience

- Balance Sheet Review
- Capital Financing
- Build Resilience
- Fraud and Avoidance

Sustainability

- Fees and Charges
- Third Party Spend
- Traded Services
- Entreprenurial Approach
- Council Tax

Transformation

- Productivity and Workforce
- Maximising Asset Utilisation
- Smart Technology
- Partnership Working and Early Intervention

As a last resort other necessary actions or measures will need to be implemented to ensure a balanced budget can be achieved.

Financial Resilience

Financial Resilience is about our ability to anticipate, prepare for and respond to the changing financial environment in which we operate and reduce the impact of shocks. In order to be financial resilient we need to be able to access and utilise our resources when and where they are needed, which also includes our relationships with key partners.

Financial Resilience has been broken into the following areas:

- Review of Bristol City Council's Balance Sheet
- Capital financing; investment, and borrowing
- Build financial resilience and independence
- Identify those that should pay by minimising fraud and avoidance

6.3.1. Review of Bristol City Council's Balance Sheet

At the end of the 2016/17 the Council held a range of funds totalling £108.4m including capital grants and useable general fund reserves. Earmarked reserves are generally more visible and subject to more frequent review and redirection. It is proposed that in conjunction with our Treasury Advisors (Capita) we would undertake a large scale balance sheet review. Whilst reserves are not the answer, it is possible that some of the funds held could be released if programmes are complete and there is no further planned spending, or if risks have reduced.

Similarly we hold a range of developer's funds through agreements which may benefit from a formalised transparent draw-down protocol, at the time and for the purpose intended to alleviate any pressures on the associated capital / revenue accounts, or repay forward funding.

Therefore:

- *We will undertake an in depth review of all items on the balance sheet with a view to releasing long-held funds which could be utilised for current priorities.*
- *We will develop protocols for releasing developer funds as planned and for the purpose intended, reducing unnecessary budget growth for increased maintenance and works.*

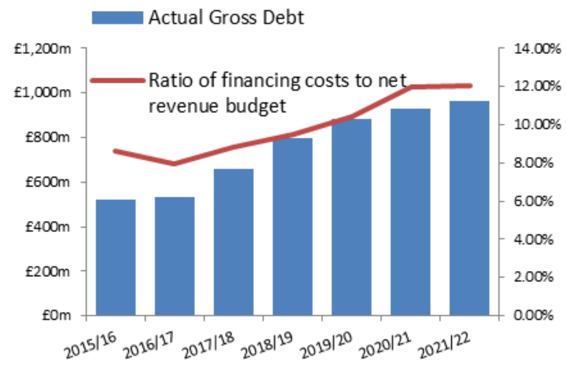
6.3.2. Capital Financing, Borrowing and Investment

A significant increase in levels of debt over the medium term, due to financing the current capital programme, has a significant impact on our revenue fund and increases our risk to increases in interest rates.

Our debt is set to almost double, growing from £535m to £962m by 2022, which will see our annual interest payments more than double from £10m a year to £22m a year.

In 2017/18 our financing costs made up 8.8% of the net revenue budget, this will increase to 12.0% by 2021/22, reducing the level available for other services.

Figure 20: Forecast gross debt and proportion of financing costs to net revenue budget



Therefore:

- *We will not increase the indicative prudential borrowing commitment in the annually approved capital programme unless substituting a current scheme or where the Council can make an evidenced return on investment.*
- *We will be evidence-led; matching projects & delivery to economic reality and benefit realisation.*
- *Any capital investment decision which involves prudential borrowing must include the cost of servicing the debt and anticipated pay-back period as part of a robust business case.*
- *Investment to save / grow decisions will only be supported when the cashable cost reductions (or increased income) exceed the financing costs of any borrowing needed to fund the investment within the agreed pay-back period for the asset type (to be determined).*

6.3.3. Build Financial Resilience and Independence

We need to fundamentally re-shape the relationship between businesses, residents and the Council to one that is more resilient and self-reliant; increasing collective responsibility and encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving agreed outcomes.

A stronger partnership will need to be developed with local businesses that we support so they are more engaged in the Council and the Council can learn from them.

We do not currently have a clear picture of the total support that the Council offers to the City. This is due to the variety of support mechanisms currently in place and no central administration, e.g. direct capital and revenue grants, discretionary reliefs, subsidies, accommodation, car parking, etc.

The policy of allowing groups to enter into new lease agreements at £1 per annum whilst similar organisations are tied into lengthier lease agreements with a non-peppercorn rent requires review. Furthermore, unless there is commercial sensitivity, transparency in reporting of subsidies must be applied. A number of partnerships or joint funding initiatives have not absorbed efficiency savings, increasing the pressure on other functions and services to generate even greater reductions. These should be subject to the same level of rigour as the core & non-core budgets.

Therefore:

- *Enable sustainable and resilient businesses; we will replace start-up grants with start-up or scale-up loans, or alternatively an equity stake offered with business support.*
- *Level the playing field; provide transparency in subsidies and alignment with strategic objectives.*
- *Review concessions, with a view to replacing peppercorn rents with fees and charges that transparently recognise the value and importance we place on those services.*
- *Community and third sector partners should be partners in development, not just recipients of funding.*
- *Capacity building should not be developed to simply mirror what the Council already does with a transfer of the same budget.*
- *The approach should embrace voluntary effort as well as "not for profit" service delivery.*
- *Capital and revenue Investments require returns and these should be about improved outcomes and reduced pressure on the core public budget.*
- *We will offer pump-priming, pump-priming plus grants, or loans to allow for innovation and development of partnerships that require funding for up to a maximum of three years.*
- *Low interest-paying loans repaid within 2-3 years will be available as a step down mechanism from long term grants.*
- *Bristol City Council funded Partnership contributions should be subject to the same level of rigour in contributing to the budget 'gap' as all base budgets.*
- *Capital investment on non-BCC assets: financed via interest-bearing loan, equity stake (subject to risks assessment), charge to be placed on the asset, or other appropriate mechanism for a return on the investment.*

6.3.4. Fraud, Avoidance and Cost Recovery

It is vital that the Council retains the maximum revenue possible in order to meet our financial pressures. We need to ensure that those who should pay do pay.

We need to review our processes for tackling fraud and avoidance in order to ensure optimum compliance without a dramatic increase in spending on enforcement, which should be a last resort.

We want to use new ways to identify those who should pay, for example, new tax payers/avoiders and in the instance of Highways Green Claims – that those responsible for causing damage to public infrastructure are identified.

Once identified, we will use a more robust approach to recovering income prior to any write-offs outside the system.

The mechanism for how we manage all forms of debt raised can be improved to provide richer information from a single lens about the debtor and the debt.

We need to optimise our income receipts by ensuring our reducing resources are appropriately targeted.

Therefore:

- *We will proactively use data intelligence for successful revenue collection; data cleansing, analytics and technology to locating new payers as well as contacting defaulters and getting the right bill, to the right person, at the right time.*
- *Through better gathering of evidence at source, and robust calculation of rates to be consistently applied in our charging, we will minimise the need to negotiate and write off invoices.*
- *We will consider an incentive scheme for information provided at an incident which directly enhances the Council's ability to recover costs, e.g. third party damage to infrastructure.*
- *Develop a debt management strategy to provide clarity on purpose; develop processes that enable us to have a single view of the debtor across all systems, which can then be monitored and more effectively tracked to increase recovery.*

Financial Sustainability

The scale of reductions in central funding has required local authorities to focus more on local self-sufficiency through a range of other forms of income generation, that will enable the cost of core services to be sustainable and allows for the resourcing of other non – core priorities.

- Increases in the rates / scope of fees and charges;
- Third Party payments
- Trading more of our services
- Adopting a more entrepreneurial approach

6.3.5. Fees and Charges

Financial regulations require services to review their fees and charges annually and much of this is already in hand within a range of alternative pipeline propositions.

A full review of fees and charges will form part of the annual budget process.

All Councils are facing similar financial challenges at the moment and it is important that for non-traded or profit centres the correct level of fees are also charged. This approach will therefore focus on the further areas of administrative improvements below.

Authorities are able to set fees and charges according to legislation governing the level at which fees can be set. If charges are set such that income doesn't match the cost to run the service, this means the service is subsidised by the Council and needs to be transparently reported.

We will review service areas where regulated fees do not meet the costs of service provision.

In setting fees we want to provide clarity on the actual regulated element of the charge and identify where within the overall service provision flexibility is available for appropriate price differentiation.

It is an accepted principle that many activities should be funded on a cost-recovery basis, paid for by those who benefit from the activity (end user pays), rather than drawing more widely on the public purse.

There needs to be a relationship between inflated service costs and service charges.

Therefore:

- *The introduction of charges for services should have a clear link between user consumption and the financing of that service.*
- *As a minimum all locally determined charges will be increased annually in line with general inflation being absorbed by the service, unless it can be demonstrated such an increase will harm service usage levels.*
- *Services operating on a costs recovery basis, will ensure a calculation is available that determines the total cost of providing the service including overheads.*
- *Where charges are set in statute but do not fully recover costs we will undertake detailed review of services and where appropriate provide the evidence to the awarding body.*
- *We will conduct a programme of targeted reviews and benchmarking.*
- *Council tax increases will be reviewed annually and only levied where necessary and*

6.3.6. Third Party Expenditure

Despite improvements in spending over recent years there is potential for further enhancements in how we commission and then procure goods and services.

In 2016/17 we used over 10,000 suppliers to provide goods and services, of which 90% received less than £50,000 each. It is true that the Council must engage in financial transactions with a wide range of providers, however the sheer volume of supplier data held in finance systems highlights significant inefficiencies. Analysing need, outcomes commissioning through to strategic procurement offers opportunities to deliver greater value for money.

Market development and facilitation would be beneficial in certain sectors, e.g. to ensure that we have a high quality health and social care market, ensuring quality improvement and efficiency of service.

Therefore:

- *We will organise procurement activity and resources to focus on specific areas of spend (category management approach) and seek to drive greater value in our procurement.*
- *We will focus on supporting local businesses to improve processes and collaboration to enable them to compete for opportunities within the Council's supply chain.*
- *We will consider social value and sustainability in our procurement activity.*
- *We will encourage value chain development, whereby collaborating partners can be recognised and reimbursed for their contribution to delivery of outcomes utilising 'payments-by-results' methodology.*
- *We will utilise outcomes-based commissioning (avoiding perverse incentives) and incentivise with shared benefits and liabilities.*
- *Market failure: We will intervene earlier where there is a clear rationale to do so, using insight to manage specification and demand.*
- *Consider a range of opportunities to deliver a return on Strategic and Shareholder Investments, to include creation of value through a wider strategic and outcomes based commissioning.*

6.3.7. Traded Services

While the Council already offers a selection of high quality, value for money services, there are a number of opportunities for increasing traded activities to generate surplus for reinvestment in other vital service.
Greater analysis and understanding is required of any legal restrictions, the costs base, our unique selling point and the market.

Teams need to be upskilled to be confident business leaders in creating new revenue streams and capacity investment provided, for additional resources to:

- *support business case development;*
- *test the concept and market;*
- *procurement or service transfer; and*
- *Implement / start up fund*

Case studies indicates that this will require a long lead in time (2-3 years) to establish and grow the income to a positive cash flow that could be returned to the general fund.

Therefore:

- *We will equip staff in selected service areas with the right commercial skills to operate more competitively and generate new income for the council which will support services for tax payers.*
- *Where viable and appropriate opportunities exist we will create the capacity that will enable a financial return to be delivered.*
- *We will consider services more appropriate for trading with an agreed return to the general fund.*

6.3.8. Entrepreneurial Approach

The practice of commercialisation is becoming widespread among local authorities in the UK as the need to generate additional income becomes ever more pressing.

The Council does not have a Commercial Strategy with a clear purpose, meaning that the approach to pursuing commercial activity, risk and return, has not been consistent.

We need to take a more entrepreneurial approach to operating our services, utilising our buying power to shape and influence the market, and where appropriate harnessing our brand or working with partners to seek new opportunities to generate a financial return to the Council that can be reinvested in delivering our priorities.

We recognise that at present commercial skills do not form an integral part of our DNA and investment will be required in our people, capacity or external joint venture to effectively deliver this agenda.

Therefore:

- *We will be more 'Entrepreneurial' in our approach to delivery and commissioning.*
- *We will actively engaging in market development and market shaping where no such market currently exists and using insight to manage specification and demand.*
- *We will invest and use our financial strengths and trusted brand to deliver a financial return.*
- *We will attract alternative investment models to support service delivery, e.g. through social investment.*
- *We will reassess our expectations of our sector and think big and bold in what we can achieve.*
- *We will ensure all viable options that create a sustainable asset should be considered in service redesign.*

6.3.9. Council Tax Increases

Local Authorities currently have the flexibility to increase Council Tax rates by up to 2% annually without the need for a referendum. The Government has also allowed councils which provide social care to adults to increase their share of Council Tax by an additional adult social care precept. Whilst this can increase revenue to fund services, we recognise that increasing Council Tax can have a large impact on our citizens and we will only use taxation where necessary and justifiable.

When using average band D in communications we remain mindful of the scale of contribution being made by each Council Tax band can be far greater than the average outlines and that bands E – H with a lower volume of households contribute an estimated 17% of the overall revenue generated.

The burden of the financial challenge should be shared by all and those that are able to contribute should. There are some citizens that are net contributors as opposed to net service users and, as the climate evolves to one of choice and on-demand operating models, the value being derived from their contribution needs to be considered when services are being redesigned.

Transforming Services

Over recent years significant savings have been made through efficiencies in the way services operate. There are always opportunities to go further, however it becomes increasingly more difficult to make savings and those which there are may require significant investment to drive out.

Therefore it is important to focus on transforming our approach to the way we enable services to deliver significant savings.

- Productivity and workforce
- Maximising physical asset utilisation
- Optimising the use of Smart technology in delivering core services
- Partnership working and earlier intervention

6.3.10. Productivity and Workforce

Transforming the way in which we work within the Council and how we strive for excellence is critical in delivering the priorities to the timescales required.

We will develop a workforce plan for the Council which reflects the core functions, roles and responsibilities and recognises the changing size, culture and focus of the Council's directly employed workforce. It will also consider the emergence of alternative delivery models and increased multi-agency partnership working.

The rapid acceleration in digital technology is driving how people want to access public services or engage with the Council and its partners.

There are increased expectations that public services are accessible in a range of new and different ways and our services need to be agile in the context of this digital era.

The Council has invested in new IT systems and technologies, and we need to optimise the infrastructure that we have invested in to increase productivity and seek cost reduction through end to end processes, customer journey and technological improvements.

Workforce

- *Develop the right organisational design that enables delivery of Mayoral priorities, including structure, pay and grading framework, and capacity.*
- *We will invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future.*
- *The Pay bill should not exceed the annually determined budget percentage.*

Productivity

- *We will consider where automation or digital delivery mechanisms are more appropriate.*
- *Services should fund their own service pressures wherever possible e.g. inflationary uplifts, general inflation (unless there is a contractual agreement that cannot be re-negotiated).*

6.3.11. Maximising Asset Utilisation (Physical Assets)

We hold significant physical resources such as buildings, cash and investments. Assets which are not being utilised, such as closed buildings, provide no value to the community or return for the Council.

Property

We have a property investment portfolio of £250m, as well as Council property worth £1bn and dwellings of £1.2bn.

There is not currently a clear property strategy or set of principles on how we optimise the use of our assets. We also lack a comprehensive asset inventory system to aid us in making informed decisions regarding our assets.

Cash and Investments

We currently have around £80m in cash and investments. Our Treasury Management Strategy is to hold £40m in liquid short term deposits available within a rolling three month period. This is so we are able to pay our liabilities when they are due.

Through maximising the use of all our assets we can deliver an increased return for the Council.

Therefore:

- *Assets held must support a strategic need or offer a net financial return that supports the financial resilience of the Council.*
- *We will invest in the development of an inventory and valuation system, with clear accounting standards.*
- *Where it is fit for purpose, we will seek to optimise the infrastructure that we have already invested in.*
- *The repurposing of the existing infrastructure to allow the Council to deploy for multi-use, e.g. advertising, digital connectivity, with rental income from service providers and from a revenue share on the income they receive.*
- *We will review restrictive regulation and dysfunctional incentives that encourage waste and low-value use.*
- *Treasury Management: We will retain a working balance (agreed annually) and invest residual funds to generate increase return on investment.*
- *We will ensure all of our assets demonstrate value generation, e.g. no idle assets.*
- *We will target a minimum Net Return / Yield on Commercial Property Investment of 5.00%, or less than 5.00% but with regeneration opportunities.*
- *We will save costs and reduce carbon through smarter use of energy.*
- *We will seek to leverage optimum funds from our estate including opportunities for pension fund investment where this provides best value.*

6.3.12. Smart Technology

More cities are facing challenges such as congestion, pollution, crime, aging infrastructure and increasing cost of social care. We need new strategies and new technologies to address those challenges. 'Smart' covers a wide range of technologies from contactless payments energy meters, to on-demand low energy lighting that monitors air quality, noise and movement to a wide range of telecare system with GPS-equipped personal alarms for use inside and outside the home. Capitalising on the benefits of Smart Technology is costly and requires upfront investment - with risk and no certainty of reward. The investment could be lost in its entirety if the demand / growth anticipated does not materialise.

Due to the wide range of possibilities we need to determine which new technological advances to invest in to deliver the needs of our residents and businesses and tackle the wicked themes we face.

We need to seek Smart City investment that strives to improve the well-being of everyone in a community by harnessing new technologies that ensures no one is left behind.

Therefore:

- *We will optimise the infrastructure that we have available in exploring the 'Internet of things (IoT) with the objective of reducing our current costs base.*
- *We will leverage other public and private sector investment for new market developments that transform and future-proof services at a reduce cost.*
- *We will proactively seek a mixed portfolio of quick wins and early adopters to create a revolving fund to support a sustainable programme of longer term developments.*

6.3.13. Partnership Working and Earlier Intervention

Services provided solely and directly by the Council may not be the most economic and effective way of delivering services in the current climate.

Sharing services with other public and private sector bodies where appropriate and increased collaboration with the public, voluntary and community sector in the spirit of "co-production" of local services can be beneficial in ensuring that services across the region are joined up and cost effective.

Some current partnerships and early intervention work is funded by time limited external grants and the benefits are not always effectively tracked with clarity on where cashable benefits arise and partnership shares ascertained for the organisation that makes the investment.

Therefore:

- *We will invest in capacity building in the community, local and regional partners to support delivery of strategic priorities and reduce costs to the general fund.*
- *We will work with key stakeholders to use pooled arrangements to increase available cash-flow and / or create revolving funds to deliver long term savings which can be redistributed to re-invest.*

6.4. Affordability

As a last resort other necessary measures will be considered to ensure a balanced budget can be delivered in each of the financial years; including divestment where non-priority or lower priority outcomes are no longer cost-effective or affordable.

7. Delivery and Resourcing

It is recognised that applying and implementing the resourcing principles will take significant resource at a time in which Council resources are stretched and funds reducing. In order to convert our MTFP resourcing principles into deliverables, it will be necessary to increase the Capacity Fund and align additional resources to our highest priorities and objectives.

We will:

- *Procure additional external support to provide the skills and capacity where required.*
- *Effectively support a range of themes, adopting a specific focus with clear deliverables aligned to the budget timetable.*
- *Move quickly on getting the basics principle right to be able to build on other elements of work.*
- *Identify the actual cash streams for efficiencies and income generation within each theme.*
- *Design and implement processes to ensure the principles are:*
    - *kept under review and remain relevant;*
    - *can be applied throughout the medium term;*
    - *scaled up as appropriate across new areas; and*
    - *knowledge is transferred.*

The resourcing principles have been presented early in the annual budget cycle and it is anticipated that, following Cabinet endorsement, further work can ensue which will enable the scale of the potential opportunities that could be derived if these principles were to be approved in the future to be ascertained. This will provide greater granularity upon which to consult, assess the impact, and assess the delivery confidence, prior to the proposition being incorporated into the budget processes.

Governance frameworks have already been established for the monitoring of the 2017/18 delivery pipeline and this delivery assurance process will be utilised for the new themes. This will provide sufficient time to assess the position and direction of travel, and to consider whether alternative measures are required to deliver a balanced budget.

8. Annual Budget Setting

The principles within the MTFP provide a framework that enables members and officers to develop detailed budget allocations for the annual budget setting cycle in the autumn of each year.

Total General Fund Resources

The forecast level of overall general fund resources available to the Council, including Settlement Funding Assessment (which excludes Improved Better Care Fund to be agreed in conjunction with Health partners) and Council Tax income, over the next planning period is as follows:

Forecast Funding	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m
New Homes Bonus	10.1	7.7	7.4	7.6	7.9
Better Care Fund	0.3	6.2	11.6	11.6	11.6
Adult Social Care Grant	2.0	0.0	0.0	0.0	0.0
Council Tax (Incl. Precept)	192.2	205.3	213.1	221.1	229.5
Business Rates *	149.8	138.4	128.8	131.4	133.9
Collection Fund	10.4	-8.9	0.0	0.0	0.0
Total Funding	**364.7**	**348.8**	**360.9**	**371.7**	**382.9**

NB. Business Rates includes Revenue Support Grant as part of 100% Business Rates Retention Pilot

The agreed principles will be applied to budget areas in designing service offers and annual budget requirements. This provides a framework to enable members and officers to transparently develop a range of propositions that, following further assessment of the impact, can be taken into account in the formulation of the annual budget allocations.

An annual refresh will enable a review of the effectiveness of the process, allow flexibility to reflect the changing financial, social, economic and environmental climate and update the forecasting for effective financial management of the Council’s finances.

9. Consultation and Cumulative Equalities Impact Assessment

The Council will continue to strive to deliver efficient services that provide value for money. In applying these principles, our budget proposals will be prepared over the coming months and these will be made available for internal, external and public consultation. We need to ensure that optimal choices being made are done on a fully informed basis.

The Council's budget planning framework is supported by the development of Cumulative Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impacts in relation to groups with protected characteristics. The EIAs will also identify potential mitigation where applicable. Where required, specific consultations will also be launched throughout the respective year and made available via the Council's website.

The Council maintains its strong commitment to equality, and the EIAs help us to arrive at informed decisions and to make the best judgements about how to target resources.

10. Conclusions

The Council's financial outlook (Part 1 of this report) outlines the immense challenge that we will face in 2017 and beyond. We forecast a budget gap of £46.7m by 2022. Government funding to local authorities continues to reduce, with now an even further element of uncertainty at a time when demand for core services remain high.

Nevertheless, Bristol is an open, innovative and vibrant city with an ambitious strategic vision to be a place in which everyone benefits from the city's success and no-one is left behind. This Medium Term Financial Plan sets out the fundamental principles to underpin the financial activity and provide a sustainable platform upon which the vision can be delivered.