

Resources Scrutiny Commission (formerly Business Change and Resources Scrutiny Commission)



Agenda

Date: Monday, 14 January 2019

Time: 4.00 pm

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

Distribution:

Councillors: Stephen Clarke (Chair), Afzal Shah (Vice-Chair), Donald Alexander, Mark Brain, John Goulandris, Margaret Hickman, Tim Kent, Sultan Khan, Graham Morris, Steve Pearce and Clive Stevens

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Date: Tuesday, 8 January 2019



Agenda

1. Welcome, Introductions and Safety Information

2. Apologies for Absence

3. Declarations of Interest

To note any declarations of interest from the Councillors. They are asked to indicate the relevant agenda item, the nature of the interest and in particular whether it is a **disclosable pecuniary interest**.

Any declarations of interest made at the meeting which is not on the register of interests should be notified to the Monitoring Officer for inclusion.

4. Chair's Business

To note any announcements from the Chair

5. Public Forum

Up to 30 minutes is allowed for this item

Any member of the public or Councillor may participate in Public Forum. The detailed arrangements for so doing are set out in the Public Information Sheet at the back of this agenda. Public Forum items should be emailed to democratic.services@bristol.gov.uk and please note that the following deadlines will apply in relation to this meeting:-

Questions - Written questions must be received 3 clear working days prior to the meeting. For this meeting, this means that your question(s) must be received in this office at the latest by **5pm on Tuesday 8th January 2019**.

Petitions and Statements - Petitions and statements must be received on the working day prior to the meeting. For this meeting this means that your submission must be received in this office at the latest by **12.00 noon on Friday 11th January 2019**.

6. Local Government Finance Settlement - Officer Update

- Paper to follow



7. Capital Programme

- Paper to follow

8. Bristol City Council Funding Reserves

- Paper to follow

**9. Financial Assessment Following the Arena Cabinet Decision
(September 18)**

10. General Budget Comments from Members (No papers)

- A verbal discussion no papers

**11. Report from the Chair of the Scrutiny MTFP & Budget Task &
Finish Group - Information Item**

(Pages 4 - 13)

12. Medium Term Financial Plan (MTFP) Update - Information Item

Please note - this report was first published for the 4th December 2018
Cabinet meeting.

(Pages 14 - 46)

13. Period 7 Budget Monitoring Report - Information Item

- Paper to follow



MTFP and Budget T & F Group Report to Resources Scrutiny Commission for 10th January 2019 P 1

Executive summary report for Resources Scrutiny Commission written by Clive Stevens

Back in September 2018 and faced with the usual problem, “how do we make a difference?” So we decided to influence the consultation, understand better areas not looked at in 2017/18 and deep dive those areas that look high risk (financial variability). Looking back I think we actually did quite well..

1. Budget question 4 is open ended and asking the public for their input – true engagement. The latest news is that returns are running at 5 x the level of last year. But in January we shall see what has been said.
2. We inputted into the MTFP, but only one suggestion was included, so undaunted, the chair made a statement at Cabinet and Cllr Cheney said he would look at the other five issues. (See page 10)
3. We looked at HRA and Capital strategy, but missed out on Local Government Settlement, Public Health, Reserves and Risk. I think officers were preoccupied with emerging pressures, we were pretty busy concentrating on the key high risk areas. Resource Scrutiny will need to look at the areas we didn't cover:
4. Those pre-identified High Risk Areas we did cover were the Dedicated Schools Grant and specifically Special Educational Needs, Adult Social Care (both 64+ and Working Age which is 18 to 64). All three areas have proved to be worthy of study. Two I would say are not operating within “financial parameters” (I'll explain what I mean by that in a minute), but one (ASC 64+) appears to be within. My term “financial parameters” means if BCC sets a budget in February 2019 then there is a reasonable chance that the actual costs will be within £2 or £3m of that budget by the following year.

There are other areas of the budget that might not be operating within “financial parameters” but we didn't look at them.

Report highlights:

DSG – when we first saw this the pressures were £1.5m (based on early planning assumptions), a month or so later, (following more detailed review) these have risen to £4.9m, by the end of 19/20 (which includes £1.8m c/fwd). If these pressures stay at this level or rise further there will be a decision that needs taken about how to fund this deficit. Additional deep dive scrutiny talking to Special Needs Coordinators in schools reveals all sorts of issues between them, Heads and the Council trying to keep a financial lid on this. It concerns us that the needs of some children might not be being met and yet SEN Scrutiny isn't due until 2019. See pages 3, 7 and top of 8 for more detail.

ASC (64+) – 2018/19 is looking like it might come in £1m lower than 17/18 (figures before one-offs). Although this is well over budget, it is commendable and the underlying graphs show that demand is moving from Res/Nursing Care to Homecare and ECH. There is still a lot to do and ultimately the aging population will force these costs up again. See pages 8 and 9.

ASC (Working Age 18-64) – also includes preparing for adulthood. This is an amazingly complex area and our first look into it. It is quite clear that the costs are increasing and that it is not clear what to do to control them. This year will be £4m (in total) more than last year. The factors that are driving this are not fully understood (perhaps nationally). It is almost certainly going to be a major cost increase in 2019/20 too (unless extra funding comes in). See pages 8 and 9.

Future

We plan to hold a one off Budget T&F meeting in February 2019 to understand how the latest pressures impact on the Budget that councillors will be voting on. Probably based on P8 forecast; This shouldn't need much if any officer resource.

A big thank you to all those on the Budget T&F and to officers too. They have been thanked by me.

MTFP and Budget T & F Group Report to Resources Scrutiny Commission for 10th January 2019 P 2

Next pages (appendices): The various notes and reports are in chronological order, have been circulated and amended at the time plus a public statement to Cabinet at the end.

- A) Pages 2 & 3 Preliminary Report to OSMB 1 – scope, consultation, MTFP (1) and DSG (1)
- B) Pages 4 to 6 Preliminary Report to OSMB 2 – capital strategy and investment, MTFP (2), Council Tax and Business Rates and Emerging pressures
- C) Page 7 & 8 Meeting Notes #5 – HRA and DSG (2)
- D) Page 8 & 9 Meeting Notes #6 – ASC (18-64) and ASC (64+)
- E) Page 10 Chair’s statement to Cabinet about recommendations not taken up in the MTFP

Appendix A

Preliminary Report (1) to OSMB for 25/10/18 - Budget Task and Finish - Clive Stevens (Meetings #1 and #2)

The Budget T&F Group has met twice and continues a fortnightly program of review. The chosen scope is to “deep dive” everything we didn’t look at last year. So we will give the general fund a fairly light touch except ASC (18-64yrs) which is showing evidence of escalating costs. We will also closely scrutinise how the savings program is tracking and have tried to suggest improvements to the consultation process.

Members: Clive (Chair), Tim Kent (VC), Graham Morris (subbing for Mark Weston), Don Alexander, Olly Mead (to be substituted), Afzal Shah and Nicola Bowden-Jones. Stephen Clarke (Chair of Resource Scrutiny which is the group “we report into”) attends too.

I would like to thank officers for their hard work and insightful presentations.

So far we have reviewed the T&F group’s scope, the budget consultation (its scope), MTFP (medium term financial plan) and the DSG (direct schools grant). We also noted that (as of 28/9/18) the P4 forecast is £7m behind budget. But assuming it can be clawed back and as long as the £76m of savings which were consulted upon in Dec 2017 are being delivered and if other pressures and incomes come in as expected then future budgets look balanced until 2022/23. That’s a lot of big IFS especially if you consider what impacts Brexit might have over the coming years. I have heard talk of inflation, staff shortages, building cost overruns and delays to name but a few, so some further efficiency savings or income increase proposals are recommended.

Issues covered so far:

1.The Scope: General Fund (light touch with detail into ASC 18-64, savings program tracking and consultation). Deep dives into Capital program, MTFP, Direct Schools Grant, HRA, Public Health, Reserves and Risk.

The budget process for any particular spend area involves defining the current need, then allowing for pressures like inflation, demographics then factoring in savings and service quality changes (both of which eventually need to be consulted on before the budget is approved) and the end result is the new budget. It is an iterative process to ensure the totals align with the total income from business rates, council tax and any other sources.

The T&F group have so far “deep dived” into Consultation, MTFP and DSG....see below:

2.Consultation (Nov 2018 feeding into 19/20 budget): An initial desire was to offer the people of Bristol with a more meaningful consultation, so discussion was commenced even before our first meeting. The idea being to combine the usual list of savings proposals and changes along with something more open ended “key cost issues of the day” like how do we get more in-house foster carers, how do we offer more extra care homes etc...these would make up say 8 to 10 MTFP/Budget discussion questions which cover large cost areas. Then.. -The usual list would then be considered and presented to Cabinet in January.

Appendix A continued.....

-The open ended, “big issue” responses would take longer to analyse and might be used to inform budget amendments (by any party including Labour) in February or inform work to feed into the following year’s budget.

Officers responded that this idea was not recommended for these reasons:

- i) The public would be uncertain as to what was feeding into the 19/20 budget,
- ii) The timescale and resource needed for analysis of the open ended responses,
- iii) The time taken to prepare different consultation formats, explanations and videos,
- iv) I am now adding a fourth and that is following the Judicial Review anything to do with consultation (or lack of it) should be thought about quite carefully.

We discussed this input as a group and decided to accept the officers’ recommendation as long as there is headroom in the savings proposals so the public are presented with true choices. So for example, if £10m of savings are needed then £15m would be proposed. We await to see if this is agreed with.

3. MTFP - The following feedback is for OSMB and for the Executive to consider next week. Six points:

- The MTFP is essentially a document of principles and behaviours to guide decision making. This may involve some officers having to drop cherished projects, it is important to embed these principles deeply.
- Need to avoid short termism regarding outsourcing, we must place more value in building BCC’s knowledge base for effective commercialisation and service delivery.
- If a zero based budget review is to occur, the value is maximised if done in conjunction with process re-engineering and then benefits locked in by ICT developments.
- Investment cases require more rigour in defining expected outcomes. That way these can be tracked, alterations to the project made and so benefits from the investments are fully achieved.
- Regarding the first bullet point, there needs to a mechanism for resolving where two policies are at odds e.g. maximising revenue from assets and the need to strengthen the community.
- Regarding commercialisation; BCC has many, unique strengths including the people and businesses we provide services to. Commercialisation should focus on activities where we can lever off our unique position and strengths.

4. DSG (Dedicated Schools Grant)

The Government calculates the funding for schools. The formula is complex. The funding flows into four funding blocks. Two blocks are underfunded compared with the actual needs here in Bristol. These are Early Years and the High Needs Block. The T&F Group will probably revisit this in December, key issues are:

- High Needs Block is underfunded by £4m, to get this fully reallocated from other blocks requires approval from the Secretary of State.
- Regarding High Needs, things are further complicated because it seems schools are slow to register their Special Needs funding requirements (They would argue differently from what I hear) and there is concern about children who have undiagnosed needs. Understanding these pressures will go a long way to better budgeting.
- Consultation on changes and any savings proposals needs to be done this November.

In conclusion: We have 4 more meetings scheduled. We have fed in our comments on the MTFP. Consultation hopefully will offer the people of Bristol a true choice. The DSG needs to be kept under close review. And the risks need to be better understood especially around Brexit.

Thank you - kind regards - Cllr Clive Stevens (Chair Budget T&F)

Appendix B

Preliminary Report (2) to OSMB for 27/11/18 - Budget Task and Finish - Clive Stevens (Meetings #3 and #4)

This covers work from two further “deep dive” meetings, we looked at the Capital Strategy (Guidelines), Capital Investment Program, Income from C.Tax and Bus. Rates and emerging pressures of which there are many and how they might affect the MTFP.

As a reminder, the Members are: Clive (Chair), Tim Kent (VC), Mark Weston, Don Alexander, Nicola Bowden-Jones and Afzal Shah, unfortunately these meetings clash with Olly’s Planning Course at UWE.

We would like to thank officers immensely for the amount of work and clarity they have provided, and their very fast response in “clearing” this report.

(In the previous report #1, submitted to OSMB on 25/10/18, we scoped the program and covered consultation, MTFP (words) and Direct Schools Grant DSG.)

1. Capital Strategy:

There are three goals of BCC Capital Investment (same as last year):

- sustainable inclusive growth of the city (where the Council benefits from increased business rates or council tax revenues for example). Analysis last year showed that at least 80% of planned investment was to do this and we were told this high percentage was being reviewed.
- investment to improve or maintain infrastructure
- Investment to make savings (e.g. productivity) or to generate a return to BCC by commercialisation for example.

Future capital investment falls into two priorities:

- Essential projects. These need to meet two of these three criteria: it is statutory (must be done), or external grant funded and it meets goals in the corporate strategy or one city plan and thirdly any revenue implications like interest are paid through external funding or cost savings. On reflection I’m not sure what happens if something is statutory and doesn’t meet the other two criteria.
- Other projects = everything else. These are assessed against seven criteria (and following our scrutiny) an eighth which is “capacity to deliver”. The eight criteria are listed in Appendix 1.

2. Capital Investment Program:

- re-profiling including the outcome of the Arena decision has reduced predicted additional borrowing (over 5 years) from £330m to £261m and so reducing forecast general fund costs (financing) of £2.5m/year. This has also released £8m of “Strategic CIL” to be able to support the Capital Program. In fact CIL including this could support [some](#) £20m of capital investment over the 5 years.
- but Capital Pressures are emerging, including possible acceleration of Avonmouth and Severnside flood defences scheme, and cemeteries.

Appendix B continued.....

3. Council Tax, CT Base & Business Rates (NDR) income:

- the Council Tax collection fund is in surplus of £1.8m (BCC gets £1.5m). It is due to better outturn of collection of 17/18 money. The collection rate for money due that year is 99.1% the second highest rate in the country (core cities) and officers are to be commended. Historically we budget on 98.5% and so that % will be looked at next year but the impact of Universal Credit could knock us back down.
- the Council Tax reduction scheme continues to fall (slowly) by £1.3m this year in theoretical cost and 2.4% lower in terms of claimant numbers as primarily pensioners are lifted out of the scheme, some reduction in working age claimants too.
- student exemptions: The headline "loss" now reaches £12.9m/year as you will see in the report coming to Full Council on Dec 11th BUT we were told that local government funding formula from a few years ago, includes some of that but not the "lost income" due to expansion in numbers since then. No figures can be provided but I would imagine our "loss" is still many millions and primarily due to university of Bristol expansion since the change. This year's increase in exemption is 397 more band D exemptions. By comparison net new housing (after exemptions subtracted) is estimated at 1,201 band D equivalents.
- the business rates NDR collection averages around breakeven, last year was a £87k in surplus to BCC. Interestingly the appeals provision standing at £25.2m is currently scheduled to be increased by Full Council by another £4m (using the Government 4.7% guidelines) even though the appeals rate is decreasing. (Message from officers: This is primarily a timing issue – they will increase again when it becomes more advantageous for agencies to support, and there is a significant risk they will increase further). However I think this is an area for further questions especially given the emerging pressures (see MTFP at 4. below). There are uncertainties regarding the NHS claim for charitable rate relief now at the Crown Court (not against Bristol but any judgment will surely affect us) and the reduction of rates for retailers with cash machines; officers are coming back to us on that.
- there was a prior year adjustment of over £700k which brings the net benefit to BCC as a positive £892k.

4. Emerging general fund pressures (Period 6) and MTFP (numbers)

- ACE (ASC £10.7m and Education £1.6m). The ACE budget is to be rebased this year which means the in-year budget will be increased to reduce the variance of outturn (forecast) to revised budget back to zero, again. This time we will see a £12.3m budget increase in ACE (with decreases elsewhere so the total Council budget doesn't change). This £12.3m is rebased using from £5.12m of ongoing cost mitigations partially from the release of contingencies built into the ACE budget and £7.2m of one-offs (S31 and social care grants). The issue with using one-offs is that although this year's budget 18/19 will stay balanced there will be a £7.2m pressure to add next year plus all the other pressures on ACE next year 19/20.
- DSG (This is subject to ongoing review due primarily to increasing pressures on SEN/HNB - and to be reviewed in more detail by the Task and Finish Group on 30/11 - it is though encouraging that the true situation of pressures in this area is now being better understood.
- The pressures have led to a recalculation of the MTFP which now shows an initial deficit of £1.9m for next year and £2.9m deficits for 20/21 and 21/22 (beyond then is the territory of the new fair funding review). This leaves no headroom for further pressures and all savings need to be delivered. So it could require identification of further efficiencies.

Appendix B continued more.....

-The MTFP assumes Council Tax increases of 2% (but no increase in ASC precepts beyond 19/20 and ASC grants held at £2m/year).

-A full MTFP refresh is planned for the summer of 2019, so don't go booking any holidays 😊!

5. Consultation update (two weeks in)

- Over 400 replies so far which is double the response rate two weeks in last year. All councillors are urged to advertise the consultation in their e-newsletters and other communications and if possible even hold meetings.

<https://bristol.citizenspace.com/bristol-city-council/budget2019-2020/>

Officers have a PPT you can use if you wish. Last year BCC had 700 responses by close. This year's close is due 17/12/18.

6. Future work

- We are to review the DSG again, HRA on 30/11 (all welcome) and on 10/12 we will cover the Local Government Finance Settlement, Public Health, ASC 18-64, risk and reserves (anyone welcome too).

- We are considering an Extraordinary Budget T&F meeting sometime in February 2019 to understand the latest on general fund pressures and how that relates to the Budget that will be voted upon maybe a week later, this idea is to ensure Councillors are even better informed than they already are.

Thank you and kind regards - Cllr Clive Stevens

Appendix C

Meeting # 5 (30/11/18) Notes – HRA (Housing Revenue Account) & DSG (Direct Schools Grant – revisited)

Present: Cllrs Clive Stevens, Don Alexander and Tim Kent. Michael Pilcher plus from HRA Paul Cook and Lorna Whitlock. And from Education Kevin Jay and Anne Sheridan. Jo Holmes (Scrutiny).

Apologies: Cllr Mark Weston

HRA

- Council Tax Reduction Scheme – members asked how many council tenants are receiving this. Officers didn't know the actual figure and said they would need to get back to Members.
- 29k homes, last decrease in rent is 19/20 then CPI increases. Totally ring fenced, must do a 30 year plan.
- Benchmarking with other LA HRAs (not really comparable with Private rents). Officers said they have some comparable data with Manchester and they could share this with Members.
- Bad debts at 2.6% of gross rent, possibly might increase due to Universal Credit (put in at 2.9% for 21/22). Asked for % on CTRS.
- Capital spend modelled to double on new builds:
New build 19/20: £21m, 20/21: £28m, 21/22: 41m (approx. £160k / property). 500 new houses – officers said they could provide a more detailed note on this so it was clearer.
- Other capital (to keep to appropriate standard - not repairs) at £29m/yr rising to £31m/yr by 21/22

Note: New policy: Some HRA will be building mixed communities (good) which then means some of the development will be sold, that will finance those remaining as council homes. This means more money in the HRA to build more council homes. The receipts from the private sales don't appear to have been factored in yet. (This is not right to buy).

Note: Since our meeting on 30/11, Don Alexander has discovered that HRA budget can be extended to parks and facilities for Council House Tenants, not just the buildings themselves.

DSG (2nd review) – update

- Main concern is High Needs Budget (HNB) (overspend).
- Noted also underspend in Early Years budgets. This is because funding is based on Government January only census data as opposed expenditure based on more regular census analysis throughout the year.
- Regarding the HNB. The Schools Forum has agreed to transfer of £2.566m from other funding blocks (Schools Block and Central Services) and more if the growth allocation from Government (numbers growth in schools) is over £3.9m. (Unlikely).
- From T&F Group perspective the issue is funding the actual needs. Historically funding schools has only ever been from Government funding. But as this is so underfunded there is potential to have to take this from the General Fund. but the Judge (JR) said at the end its for LAs to fund the needs.

Appendix C continued....

- Predicted needs 18/19 is £54,230 about £100k more than the recently reset budget. - For 19/20 the needs are predicted to rise to £58,187 which is £4.9m more than the forecast funding from Government (That is £51.494 plus the £2.566 authorised by the Schools Forum = £53.266).

The Chairs view is that “something will have to snap. We either fund the needs and carry the loss on the Schools Budget for a further year (what then in 20/21? Maybe sorted in fair funding review?) OR we underfund the HNB (unlawful)”. Officers have stated that savings or additional income source would be needed to fund this.

Appendix D

Meeting # 6 (10/12/18) Notes – ASC (64+ revisited and Working Age 18 – 64)

Present: Councillor’s Clive Stevens, Mark Weston, Don Alexander, Afzal Shah and Gary Hopkins (sub for Tim Kent), Neil Sinclair (Interim Finance Business Partner, Resources), Johanna Holmes, Scrutiny Officer.

Notes: Joint effort Clive and Jo.

ASC Overview

- Forecast variances to 18/19 budget of £11m for 18/19 (£64yrs+ at £8m, 18-64 at £10m and “preparing for adulthood mainly” 18 – 25 at £3m offset by staffing savings of £6m and one-offs of £4m). This is before the P7 reset.
- Figures show big reliance on one-off funding again this year.
- Figures show the number of people receiving care has gone up by 2% (currently 5,322 service users) but costs have gone up by 4%. (17/18 to 18/19)
- 17/18 act. 64+ £72.8m 18-64 £63.7m Prep Adult £7.6m
- 18/19 P6 64+ £71.1m 18-64 £66.6m Prep Adult £8.9m
- The figures are difficult to judge trends because there’s little comparable data going back very far. This issue partly due to one-off funding and no two years being funded in the same way. This makes it really difficult to learn from the past and is especially confusing for councillors.
- But the figures above are comparable. You can see 64+ is actually a little lower than last year, the numbers of people in nursing/residential care have fallen by over 100 total and prices are plateauing. This is the impact of the better lives program.
- BUT this has not impacted 18-64year olds nor Preparing for Adulthood.
- **We looked at the pressures, the success (or otherwise of the Better Lives Program). We were not shown any draft 19/20 budget numbers yet but have a feel for what a sensible range would be as long as Finance present gross figures before all the one offs, show them clearly, for a net figure .**

Better Lives Programme (ASC 18-64 yrs)

- BCC appears to be paying a lot for the care it’s funding. More than many other LA’s and above the national average. Officers are currently looking for ways to bring the costs down.
- There are skills gaps BCC needs to address regarding 18-64. The council are recruiting more officers who understand this area of work and know what is needed when commissioning services. There is now a larger and more specialist commissioning team working to improve the pricing and control the costs. Officers are currently also putting a plan together to address overall spiralling costs (such as

Appendix D Continued.....

residential care costs) and would like to share this plan with members when it is a bit more developed.

- Certain cohorts are increasingly growing such as the older age group and those with complex needs.
- I think it is true to say that the Budget T&F Group were amazed at the complexity of issues, services and difficult cases. Solving this is a different order of magnitude in difficulty to the 64+ which was difficult enough.
- Various hypotheses were discussed about the different causes e.g. having a specialist children's hospital in Bristol acting like a magnet and then individuals stay to access the services. At this stage it is not known if that impacts the numbers.
- There is a "bulge" in numbers in their 50s, this is a legacy issue. Once they reach 65 they will move across to 64+ budget.
- Discussion about how the group can support officers on this subject going forward. Members are quite keen to do more but also don't want to take up officers precious time.
- Members suggested that more work with other LA's should be done (to both share costs and learn from each other).
- Taking learning difficulties as an example which is 239 people about 10% of the service users, there are approx. 2 or 3 people entering the system per year with severe learning difficulties costing over £200k a year each. Those leaving the system are more (4 or 5 people a year) but costing closer to £60k a year. So even if numbers slowly reduce (which is difficult to imagine) the average cost of care packages will increase.
- The complexity of all this is mindboggling (to the Chair at least).
- And it is clear to the Task Group that Local Authorities can't continue to support this type of activity in the long term. The cases are complex medical issues and LAs can't be expected to have these skills, nor the governance, and that's even if they had the funding, which they don't either. We need to work with other LAs to spell this out clearly to Government.

Adult Social care for over 65 year olds

- We must applaud officers. Costs in 18/19 will be slightly less than 17/18.
- The Better Lives program has put a cap on residential rates and is beginning to bring down demand (but not as fast as the MTFP would like). The actions are well thought through and bedding in. We can see a stabilisation of costs for a year or two before demographics (>85s) overwhelms it. But for now officers deserve a "well done, have a cup of tea, now get back to work" because there is still a lot to do to ensure success of all the programme for 64+ care.
- It seems to us that the quality of care is as good or better as defined by the service user. That's up to ACE Scrutiny to check.
- Some examples:
- Stoke Gifford Retirement Village for the over 55's – this has recently opened and was said to be a good example of how older people can be supported to stay in their own homes longer. This is better for people and for tight budgets.
- Also, it was said that we need more mixed communities where different age groups live together and support each other (Japan are a good working model of this). Lockleaze was said to be an area that is being looked at for trialling this type of mixed community. More are needed.
- Discussion about how a housing company can help with future RTB i.e. help the council continue to keep hold of houses that have been kitted out with assisted technology for people with support needs. It costs a lot of money to kit houses out to a high specification and we don't want to keep losing them once it's all been installed. Members suggest we should be lobbying in the meantime to enable the council to keep hold of them.
- Looking ahead - new funding was announced in Chancellor's budget this year for 2019/20.

Appendix E

Statement to Cabinet – 5 Dec 2018 - Agenda 16 - MTFP and Capital Strategy – Cllr Clive Stevens

Although the scrutiny box is unticked, the Budget Task and Finish Group did look at these; the MTFP twice and the Capital Strategy once and both in some detail.

It seems you have taken on one of our recommendations, the one relating to including social value when trying to maximise the return from assets (p187). That was an example of a more general point where we thought you needed a mechanism for officers to resolve instances when two MTFP decision principles are in tension with one another, for example charging fees in parks or for road closures versus building social capital and resilience.

We actually made some other recommendations too these don't appear to have been included but in case you missed them they are here:

- MTFP: Investment cases need more rigour in defining predicted outcomes that are measurable and directly related to the proposal.

- MTFP: Entrepreneurship should be focussed on areas that the Council already has strengths. When you go into the business world you need what's called a competitive advantage. Normally this can be a skill or resource that is beats what competitors Can do. Some examples are the land holdings BCC has, access to funds at low rates and as an expertise BCC is strong in Planning for example.

- Capital Strategy (para 26 table 23). For a project to be categorised as essential it needs two of the three criteria to be met. But what if a project has to be done to meet a statutory requirement but it doesn't meet either of the other two funding criteria?

- Capital Strategy (para 27 table 4). For non-essential projects you have seven criteria. We suggested an eighth: Capacity to deliver. (Much of capital program has been under delivered for years due to this factor).

I know it is a very busy time of year and you or your finance officers might have missed these points. Our Group appreciates being given the opportunity to undertake pre-decision scrutiny and as Chair I do hope our work is appreciated.

Resources Scrutiny Commission

14th January 2019



Report of: Denise Murray, Director of Finance

Title: Medium Term Financial Plan and Capital Strategy

Ward: N/A

Officer Presenting Report: Denise Murray, Director of Finance

Contact Telephone Number:

This is an information only item.

Please note, this report was first published for the 4th December 2018 Cabinet meeting.



Decision Pathway



PURPOSE: Key decision

MEETING: Cabinet

DATE: 04 December 2018

TITLE	Medium Term Financial Plan and Capital Strategy		
Ward(s)	n/a		
Author: Denise Murray	Job title: Director of Finance		
Cabinet lead: Craig Cheney	Executive Director lead: Mike Jackson		
Proposal origin: <i>Other</i>			
Decision maker: Cabinet Member Decision forum: <i>Cabinet</i>			
Purpose of Report: The Medium Term Financial Plan (MTFP) and Capital Strategy are a key part of the Council's financial planning process and sets out the Council's strategic approach to the management of its finances and provides a framework within which delivery of the Council's priorities will be progressed. In July 2017, a Medium Term Financial Plan (MTFP) was presented to Cabinet which set out the financial outlook for the period 2017/18 – 2021/22 and set out a series of resourcing principles. This report sets out an update to the MTFP and a Capital Strategy to be considered by Cabinet in making recommendations for Council to approve.			
Evidence Base: The MTFP provides the financial context within which the Council budget will be set and the financial planning assumptions will be kept under constant review given the increased level of uncertainty in the financial and economic climate. The MTFP sets the principles under which the budget proposals are developed which are then put forward to Full Council for approval as part of the annual budget setting process. On 20 February 2018 Council agreed the annual 2018/19 budget, directorate spending limits and the Capital Programme covering the period up to 2022/23. This included a balanced financial outlook for the next four years. Despite having a balanced position there are still significant financial risks and uncertainties in the medium term. This refresh provides an update on the financial outlook and high level review of the key resourcing principles ahead of a more in-depth review following the Government Spending Review in 2019. Changes in the national and local context which may impact on the Council and the financial resourcing principles have been analysed and the resourcing principles have been reviewed in line with these changes. It also 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 2018/19 budget report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability. The report has been developed through analysis of relevant data sets and engagement with officers and a scrutiny task and finish group.			
Cabinet Member Recommendations: The Cabinet <ol style="list-style-type: none"> 1. Notes the economic outlook and projections within the 5-year MTFP 2. Notes the strategic planning approach taken 3. Recommends the Medium Term Financial Plan for the period 2019/20 to 2023/24 to Full Council for approval. 			

4. Recommends the Capital Strategy to Full Council for approval.

Corporate Strategy alignment: The Medium Term Financial Plan aims to ensure available funding and budgetary processes are aligned with corporate priorities

City Benefits: n/a

Consultation Details: Budget consultation exercise will be carried out annually to help inform Members of stakeholder's views of spending priorities and acceptable levels of Council Tax.

Revenue Cost	£n/a	Source of Revenue Funding	
Capital Cost	£n/a	Source of Capital Funding	
One off cost <input type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice: The financial implications are set out in the Medium Term Financial Plan for the period 2019/20 to 2023/24.

Finance Business Partner: Michael Pilcher, Finance Business Partner

2. Legal Advice:

Whilst there is no legal requirement to produce a medium term financial plan (MTFP), it is a key financial document as it informs the Council's budget setting process.

It brings together all known factors affecting the Council's financial position and its financial sustainability into one place and enables a basis for decision making that balances the financial implications of objectives and policies against constraints in resources.

It gives clear and understandable information to decision makers on the actions that are needed to ensure long-term financial sustainability and provides the framework against which the Council's annual budget should be formulated and set.

The CIPFA Prudential Code was revised in 2017 to introduce a requirement for the Council to produce a Capital Strategy.

The strategy should be tailored to individual circumstances and cover capital expenditure, investments and liabilities and treasury management overall strategy, and governance. It should enable procedures and risk appetite to be fully understood by all elected Members and allows Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Legal Team Leader: Nancy Rollason 23/11/2018

3. Implications on IT: As this paper addresses funding principles, rather than budgets and costs directly, there are no direct IT implications in the production of this paper.

IT Team Leader: Ian Gale 22/11/2018

4. HR Advice: A key principle underpinning the Medium Term Financial Plan is our workforce and productivity. An organisational improvement plan is being put in place which will support the requirements set out in the Medium Term Financial Plan and our Corporate Strategy. There will be workforce changes arising during the financial planning period and these will be addressed and considered during the annual budget setting process.

HR Partner: Mark Williams 23/11/2018

EDM Sign-off	Mike Jackson	21/11/2018
Cabinet Member sign-off	Cllr Cheney	26/11/2018
CLB Sign-off	CLB	20/11/2018
For Key Decisions - Mayor's Office sign-off	Mayor's Office	05/11/2018

Appendix A – Further essential background / detail on the proposal	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	NO
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Combined Background papers	NO
Appendix J – Exempt Information	NO
Appendix K – HR advice	NO
Appendix L – ICT	NO

Medium Term Financial Plan

Introduction

1. *The Medium Term Financial Plan (MTFP) is the Council's key financial planning document and covers a rolling five year period. It is a living document which provides a reference point for corporate decision-making and ensures that the Council is able to optimise the balance between its financial resources and delivery of its priorities as set out in the Corporate Strategy. The MTFP informs the annual budget-setting process, ensuring that each year's budget is considered within the context of the Council's ongoing sustainability over the entirety of the planning period*
2. *The previous MTFP considered in depth the current national and local context in which the Council is currently operating and contains a number of assumptions, which will be subject to change and as such requires an annual refresh. This refresh considers any changes in the last year and also updates on some of the projections and emerging risks.*

National Context

Economic Outlook and impact of Brexit

3. *The degree of uncertainty surrounding economic forecasts is virtually without precedent. Brexit represents a source of huge uncertainty, although the main impact on economic growth is likely to come over a longer time frame.*
4. *The economy has been more resilient than most commentators expected since the EU referendum, but a period of slower growth is in prospect. The recent economic updates from the Office of Budget Responsibility show some short term improvements in overarching public finances as a result of lower than expected borrowing however this has not hugely impacted their medium term outlook and is against a backdrop of lower than expected global and national economic growth.*

Central Government Spending

5. *This year's MTFP update is set ahead of a period of significant uncertainty on Government spending plans. There is still little certainty over the impact of BREXIT on the British economy nationally and locally and therefore it is very difficult to know how this will affect Government spending plans and local economies.*
6. *2019/20 is the final year of the Government's current comprehensive spending review period and the last year of a four year finance settlement for local authorities which offered greater certainty over some elements of funding over the period. There is therefore significant risk and uncertainty of the funding level for the Council after 2019/20. The next spending review is expected in 2019 and preparations for it are well under way. These reviews represent choices between different priorities and will outline government spending plans for 2020 and beyond. When national finances are tight, as now, those can be tough choices.*
7. *We look forward to the review as it offers the opportunity to rebalance public spending plans in recognition of the value in local government and unless the government changes course, the chancellor's recent claim that there is "light at the end of the tunnel" will amount to hollow rhetoric. We desperately need a proactive strategic approach to public service spending that can return local government finances to a sustainable trajectory and facilitate our medium term planning,*

8. *For 2019/20 we remain trapped in a 'reactive spending cycle with emergency cash injections'. Over the last twelve months there have been several consultations and announcements which have and will continue to impact on future local government funding and a small amount of additional cash was identified for local government and regional infrastructure in the Autumn Budget.*

Social Care funding

9. *Over the last four years there have been various announcements regarding different sources of funding for Adult Social Care, from the improved Better Care fund and Adult Social Care Precept, to various ring-fenced grants, including a £650m commitment for 2019/20. Often the confirmation of funding and conditions are given late and as a result has made it difficult for local authorities to plan for a longer term horizon for social care. The improved Better Care Fund is only confirmed until the end of 2019/20, and it is unclear whether the additional grants awarded in the last three years will continue in some form.*
10. *In March 2017 the Government announced it would publish a green paper on the future of Social Care funding. However there have been several delays to this paper and it is now not expected until autumn 2018. The green paper will focus on social care for older people to "...set out options to improve the social care system and put it on a more secure financial footing", with specific issues for working age adults being subject to a separate "parallel programme".*
11. *In June the Prime Minister committed an additional £20bn to the NHS, however there is uncertainty regarding the source of this additional funding which may put extra pressure on other Government departments with no indication of any additional funding for social care. At the same time the Health and Social Care secretary announced the development of an NHS Long-Term Plan, which would include integration of health and social care and review the current functioning of the Better Care Fund. The current Better Care Fund includes a significant funding allocation for social care services delivering health benefits which would form part of this review.*

Education Funding

12. *2018/19 saw further moves towards a national funding formula (NFF) for mainstream schools, early years settings, high needs budgets and central services. For mainstream schools, local authorities continue to be responsible for distributing money between schools in their area, pending the move to the full NFF. In July 2018, the DfE announced that local authorities would continue to determine the local formula for mainstream schools until 2020/21, a year later than originally planned. Commitments made on Schools funding were only until the end of the current spending review in 2019/20, meaning uncertainty whether current levels of funding will be maintained after this.*
13. *Funding per pupil received for early years settings in Bristol has reduced by 10% with the introduction of an early years NFF over three years, but levels of provision have increased because of population growth and the availability of free nursery education for up to 30 hours for eligible families.*
14. *Funding for High Needs activities through the NFF has been below current commitments for the High Needs budget which has created tensions in having to shift resources from other parts of the DSG or to try and reduce those commitments.*
15. *Whilst Government have committed to maintaining schools funding this has meant that in recent years there has been significant reductions in the funding local authorities receive to carry out statutory responsibilities for both academies and maintained schools. The Education Services Grant reduced by £600m nationally since 2014/15, from £700m. Any residual funding is now incorporated in the NFF.*

Fairer Funding Review

16. *The government is undertaking a 'Fair Funding Review' which is aimed at designing a new system for allocating funding between councils. Funding methodology for local authorities is based on an assessment of need and resources; it is over ten years old and has not been updated since 2013/14.*
17. In particular, the review will update and improve methods for estimating councils' differing abilities to raise revenues, their differing spending needs *including consideration of how relative council tax income should be taken into account.* The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.
18. *The government aims to implement the review from the financial year 2020/21 however there are still technical aspects of the review which MHCLG are yet to consult on and until additional details are known it is very difficult to have any certainty regarding the financial impact of this review.*

Business Rates Multiplier and Retention

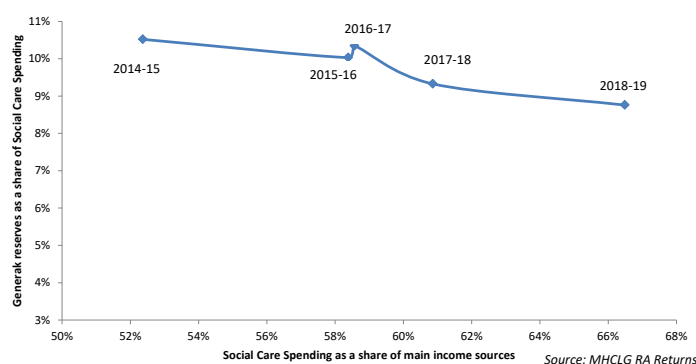
19. Local authorities are becoming more reliant on business rates income, especially growth in this income as the share retained is increasing however the rates are still set by Central Government with little discretion regarding any changes. The rates are increased annually in line with inflation, however this is set by Government who have in the past capped the inflation.
20. There is pressure on the Government to reduce the burden of business rates on businesses as they are often cited as a reason why businesses struggle.
21. Following the 2017 general election, the Local Government Finance Bill was dropped. This legislation was required to enable Local Government to retain 100% of Business Rates. The Government has announced local authorities will move to retaining 75% of Business Rates in 2020/21. The overall business rates retention system reform will include the following areas:
 - central and local ratings lists
 - split of business rates between upper and lower tier authorities
 - gearing
 - safety net which protects authorities from large drops in business rates;
 - levy payment on any growth
 - appeals and loss payments
 - resets
 - pooling of rates between authorities
 - simplification of business rate retention system
22. As part of a move to 75% retention it will include a rebaselining of business rates in line with the fair funding review. This will mean any growth since the last baseline was taken in 2013/14 would be redistributed across all authorities on a needs basis.
23. Devolution deal areas with ongoing pilots such as the West of England Combined Authority will continue to pilot 100% business rates retention in 2019/20. It is undecided what will happen to pilots in these areas when the proposed new system of 75% business rates retention is introduced in 2020/21.

Local Context

Policy priorities

24. Local government is accustomed to operating in an environment where resources are constrained with potentially infinite demand for services. Resource decisions, therefore, inevitably involve an element of prioritisation and most involve some form of rationing based upon need.
25. The outcomes from key policies and priorities need to be delivered efficiently and effectively so that economic benefits are realised in a timely fashion
26. *Recent years have seen significant budget pressures as a result of changes in costs and demand for statutory services as well as significant cuts in core funding.*
27. *Figure 1 provides two metrics which can show the overall financial health of a local authority. It shows since 2014/15 the proportion of our main sources of income being spent on Social Care has increased from around **52% to 66%**, at the same time the proportion of our general reserves compared to this spend has also been reducing. This reflects the pressures faced by these services and also highlights the necessary reduction in other services in order to respond to decreased funding from Government.*

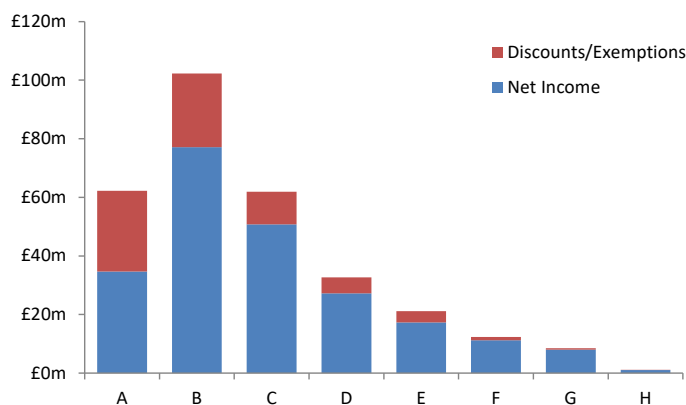
Figure 1: Trend in proportion of budget spent on social care and the general reserves as a proportion of social care spending



Council Tax

28. Just over 80% of the Council Tax base in Bristol is made up of houses in bands A-C, compared with just over 60% nationally. Lower banded properties are much more likely to be entitled to discounts or exemptions from Council Tax and therefore Council Tax increases don't raise the same level of fund as an authority with a high proportion of houses in band D and above.
29. Bristol retains a council tax reduction scheme (CTRS) which hasn't changed since Council Tax benefit was abolished and responsibility transferred to local authorities. Due to reductions in funding many authorities have since introduced changes to reduce the level of discounts, such as minimum payments. Around 35,000 households across Bristol receive some form of discount to their Council Tax bill from the CTRS at a cost to the Council of around £35m a year. This is split between those of pensionable age, which accounts for around 12,000 households, which is protected by legislation, and those of working age, around 24,000 households for which there is local discretion to the level of discount.

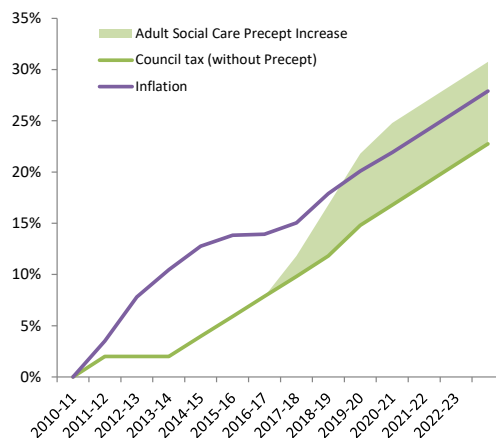
Figure 2: Net Council Tax Income and level of discounts and exemptions by band



30. Over recent years the level of students and student properties, which are exempt from paying Council Tax, has increased across the city. Our funding through business rates retention takes into account the impact of these types of exemptions and discounts in the core funding as part of the annual local government finance settlement, however this is only updated periodically. The current four year settlement which has provided greater certainty over funding over a medium term has also meant the Council tax income used in this calculation hasn't been updated since 2015/16 to reflect changes in the council taxbase.

31. Between 2010 and 2016 core Council Tax increases were below general inflation and since 2016 they are broadly been in line with general inflation at around 2% increase each year. Since 2016 Bristol has also inflated the rate for the Adult Social Care precept which puts the increases in the Council tax above the recent rates of inflation. The current MTFP assumes annual increases in line with inflation at just less than 2%.

Figure 3: Cumulative percentage increase in Council Tax against inflation since 2010



32. Local authorities are becoming more heavily reliant on Council Tax to fund services which is paid by all households. These services are becoming increasingly targeted rather than universal services available to all due to cuts in other grant funding. Current allowable increases in local raised taxes only give authorities the ability to increase income to meet inflationary pressures but aren't sufficient to also meet increasing demand for statutory services such as social care.

Financial Outlook

33. On 21 February 2018 Council agreed the annual 2018/19 budget and agreed a set of savings proposals which if delivered would deliver a balanced financial outlook for the next four years. For any forecast or plan there are many planning assumptions behind this position which are continually monitored through regular budget monitoring.
34. *The basic principle of the MTFP modelling is to extrapolate the current year's approved budget, in this case 2018/19, over the next five years. The extrapolation process incorporates assumptions on government grants, inflation, changes in demand for services, changing legislation, delivery of savings and probable risks and opportunities. A fundamental part of the outturn analysis is to focus on those areas where there were over- or under-spends in order to identify whether the budget assumptions could be updated in order to improve the accuracy of the MTFP.*

Update of budget assumptions from 2018/19 outturn

35. *The period 6 monitoring report in 2018/19 shows a forecast overspend of £12.9m on delivery of services. Whilst there is opportunity to mitigate this position to balance the in-year position this level of underlying overspend needs addressing in contributing to the delivery of a balanced budget in the medium term. The largest area of base recurring pressure remains within Adult Social Care services.*
36. *The supplementary estimate process to resolve pressures in 2018/19, subject to Cabinet approval, will reduce the ongoing pressure to services. Assuming full use of the recently announced 2019/20 social care grant for the ACE directorate and 3% increase in Council Tax as assumed in our early planning assumptions will reduce the on-going pressure on services to £1.9m for 2019/20.*
37. *There are considerable pressures on the high needs block of the dedicated schools grant. Options for addressing the pressures in the 2019/20 are being considered by Schools Forum. The main issue is the forecast shortfall on the High Needs block. The current estimate is a forecast overspent of £7.5m at the end of March 2020. Schools Forum is being asked on three different options to transfer budget from the Schools Block and the School Central Services Block in order to mitigate some of this problem.*

Council Tax

38. *The recent consultation on the 2019/20 Local Government finance settlement indicated that the referendum principles on increases in the rate of core Council Tax would remain at up to 3% for a further year. The financial outlook currently assumes a 2.99% increase in Council Tax. A further 1% increase would generate an additional £2m.*
39. *The number of properties which pay Council Tax is increasing and it is currently assumed this growth will continue at 1.5% a year; however the last two years has seen lower growth than this. Growth between 2018/19 and 2019/20 is set to be just 0.95% this is a shortfall of c£1.7m income a year going forward. Part of the reason for the lower than anticipated growth was due to a large increase in the number of student exemptions.*

Incentive funding

40. To fund our base budget requirements we are reliant on certain grant incentive funding such as New Homes Bonus. This dependency reduces our financial resilience to adapt when these income streams are withdrawn or changed.

Reserves policy

41. A cliff edge remains in sight and in the medium term a need for organisational resilience and business acumen. The Government has been critical of Councils across the country and their levels of reserves. However, given strategic risks, such as Business Rates Retention, costs pressures and reducing resources to meet future spending plans, we believe that BCC's proposed level of unallocated general reserves between 5% – 6% of net budget remains appropriate, however this subject to an annual risk assessment as part of the budget setting process.
42. Earmarked reserves are set at a reasonable level to cover the specific financial risks faced by the Council and are reviewed annually. They are held where absolutely necessary in order to mitigate specific risks and provide funding for future known one-off liabilities.

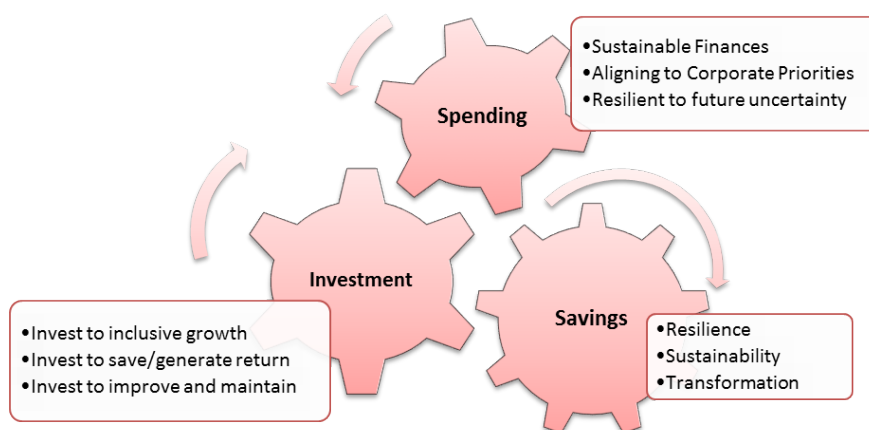
Budgetary assumptions

43. Due to the significant uncertainty around funding over the medium term the approach at budget setting and continued in the MTFP is to aim to set a balanced budget for the coming three years, but to maintain a longer term outlook but not seek to address the later years.
44. Budgetary assumptions for 2019/20 and the years beyond have been reviewed where appropriate and the material changes to the MTFP as a result of this review are as follows:

	19/20	20/21	21/22	22/23	23/24
	£m	£m	£m	£m	£m
Original 'Gap'	0.0	0.0	0.0	(5.4)	(11.8)
Changes to Funding					
Updated Council Taxbase	(1.7)	(1.7)	(1.8)	(1.9)	(2.0)
Collection fund	0.9				
PFI	4.0	4.0	4.0	4.0	4.0
Pressures/Commitments					
Corporate Investments	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
ACE on-going pressures	(9.4)	(6.4)	(6.4)	(6.4)	(6.4)
Indicative Social Care Grant	5.0				
On-going future social care funding		2.0	2.0	2.0	2.0
Revised 'Gap'	(1.9)	(2.9)	(2.9)	(8.4)	(14.9)

Our Financial Principles

- 46. Our financial principles are based around three key areas, how we spend, how we invest, and how we save and make efficiencies.
- 47. A high level review of these principles has been undertaken for relevance and effectiveness which has shown the current resourcing principles in place are still appropriate.



Principles by which we will spend

- 48. How we set our plan and allocate our limited financial resource continues to be important to most effectively deliver on the Council's priorities as set out in the Corporate Strategy. The Council continues to operate in a period of significant uncertainty regarding future financial resource which will be available so it is. Therefore the principles by which we will spend are:

Aligning spend with corporate priorities

- Subject to delivering statutory responsibilities, we will challenge all existing spend in the context of our strategic priorities and consider our legal obligations in providing services.

Being resilient to future uncertainty

- We will be prudent; taking into account the uncertain financial outlook, by building flexibility into future contracting plans and developing exit strategies for all externally funded activities.
- Maintain sufficient reserves and balances to manage risks.

Maintaining sustainable finances as a priority

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

Other Principles

- Investment in agreed priority areas
- Grant reductions fully passported

Principles by which we will invest

49. The Council has assets worth over £1 billion and has an ambitious programme of capital investment over the medium term. 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.

50. 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 the changing needs and requirements of our services and citizens.

51. Our resourcing principles regarding capital planning are:

Capital Planning

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

52. Our investment principles are:

Capital Investment Principles

- Investing for inclusive growth

The Council will expand its capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City

- Invest to save and to generate returns

The Council will invest in projects which will reduce running costs avoid costs (capital or revenue) that would otherwise arise invest to generate a financial return (invest to invest).

- Investment to improve and maintain Council assets

The Council will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery

- Risk aware

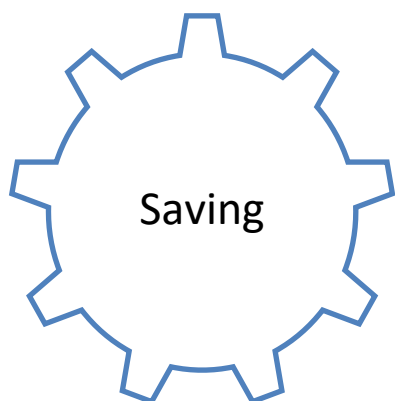
The risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

Principles by which we will save

53. This MTFP goes beyond just a list of savings proposals and sets the framework to facilitate a further pipeline of opportunities and efficiencies to support the financial sustainability and resilience of the organisation. These principles are intended to act as a catalyst to generate further savings which will be necessary to ensure the Council has resilience in the uncertain medium term.

54. 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.



Financial Resilience

- Balance Sheet Management
- Capital financing, investments and borrowing
- Build financial resilience and reducing dependency
- Fraud, cost avoidance and recovery

Financial Sustainability

- Fees and charges
- Third party expenditure
- Entrepreneurial approach

Transforming Services

- Workforce and productivity
- Maximising asset utilisation
- Partnership working & earlier intervention
- Smart technology

55. Last year a number of key principles were developed from areas of knowledge, benchmarking and other local authority best practice, as well as our own data sources, which indicated potential opportunities exist by applying these principles. In reviewing our resourcing principles there are no significant changes being proposed however they have been tweaked to make them more concise and to provide focus to priority areas which are yet to be fully explored and delivery savings to the Council

56. The refreshed resourcing principles are set out in Appendix A2 and a change summary is provided in Appendix A3.

Principles by which we will spend

Aligning spend with corporate priorities

- Subject to delivering statutory responsibilities, we will challenge all existing spend in the context of our strategic priorities and consider our legal obligations in providing services.

Being resilient to future uncertainty

- We will be prudent; taking into account the uncertain financial outlook, by building flexibility into future contracting plans and developing exit strategies for all externally funded activities.
- Maintain sufficient reserves and balances to manage risks.

Maintaining sustainable finances as a priority

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

Other Principles

- Invest in agreed priority areas
- Grant reductions fully passported

Principles by which we will invest

Capital Programme

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

Capital Investments

- Investing for inclusive growth: We will expand its capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City
- Invest to save and to generate returns: We will expand its capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City.
- Investment to improve and maintain Council assets: We will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery
- Risk aware: the risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

Principles by which we will save

Financial Resilience

Building resilience and reducing dependency

- 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.
- 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.

Fraud, Cost Avoidance and Recovery

- 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 process that enables us to have a single view of the debtor across all systems, which can then be monitored and more effectively tracked to increase recovery

Balance Sheet Management

- We will actively manage the balance sheet with a view to releasing long-held funds which could be utilised for current priorities and to maximise investment returns within agreed levels of risk
- We will develop protocols for releasing developer funds as planned and for the purpose intended, reducing unnecessary budget growth for increased maintenance and works.

Capital financing, investments and borrowing

- 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).

Financial Sustainability

Fees and Charges

- 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 reviewed annually which will include relevant benchmarking information, and increased in line with general inflation, 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.
- Council tax increases will be reviewed annually and only levied where necessary and justifiable.

Third Party Expenditure

- 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.

Entrepreneurial Approach

- 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.
- 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.

Transforming Services

Workforce & Productivity

- 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.
- 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).

Maximising Asset Utilisation

- 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.
- 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 or social value 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.

Smart Technology

- 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 implement a twin track approach; prototyping appropriate concepts with strategy development.
- We will leverage other public and private sector investment for new market developments that transform and future proof services at a reduce costs.
- 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.

Partnership Working and Earlier Intervention

- 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.
- 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.

Appendix A3: Resourcing Principles Change Log

Current	Revised Principles
Balance Sheet Management	
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 actively manage the balance sheet with a view to releasing long-held funds which could be utilised for current priorities and to maximise investment returns within agreed levels of risk
We will develop protocols for releasing developer funds as planned and for the purpose intended, reducing unnecessary budget growth for increased maintenance and works.	No change
Capital financing, investments and borrowing	
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.	No change
We will be evidence-led; matching projects & delivery to economic reality and benefit realisation.	No change
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.	No change
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).	No change
Building financial resilience and reducing dependency	
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.	No change
Level the playing field; provide transparency in subsidies and alignment	No change

Current	Revised Principles
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.	No change
Community and third sector partners should be partners in development, not just recipients of funding.	Moved to partnership working
Capacity building should not be developed to simply mirror what the Council already does with a transfer of the same budget.	Moved to partnership working
The approach should embrace voluntary effort as well as “not for profit” service delivery.	Moved to partnership working
Capital and revenue Investments require returns and these should be about improved outcomes and reduced pressure on the core public budget.	No change
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.	No change
Low interest-paying loans repaid within 2-3 years will be available as a step down mechanism from long term grants.	No change
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.	No change
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.	No change
Fraud, Cost Avoidance and Recovery	
We will proactively use data intelligence for successful revenue collection; data cleansing, analytics and technology to locating new	No change

Current	Revised Principles
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.	No change
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.	No change
Develop a debt management strategy to provide clarity on purpose; develop process that enables us to have a single view of the debtor across all systems, which can then be monitored and more effectively tracked to increase recovery	No change
Fees and Charges	
The introduction of charges for services should have a clear link between user consumption and the financing of that service.	No change
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.	No change
Services operating on a costs recovery basis, will ensure a calculation is available that determines the total cost of providing the service including overheads.	No change
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.	No change
We will conduct a programme of targeted reviews and benchmarking.	No change

Current	Revised Principles
Council tax increases will be reviewed annually and only levied where necessary and justifiable.	No change
Third Party Expenditure	
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.	No change
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.	No change
We will consider social value and sustainability in our procurement activity.	No change
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.	No change
We will utilise outcomes-based commissioning (avoiding perverse incentives) and incentivise with shared benefits and liabilities.	No change
Market failure: We will intervene earlier where there is a clear rationale to do so, using insight to manage specification and demand.	No change
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.	No change
Traded Services	
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.	Moved to entrepreneurial approach
Where viable and appropriate opportunities exist we will create the capacity that will enable a financial return to be delivered.	Moved to entrepreneurial approach
We will consider services more appropriate for trading with an agreed	Moved to entrepreneurial approach

Current	Revised Principles
return to the general fund.	
Entrepreneurial Approach	
We will be more 'Entrepreneurial' in our approach to delivery and commissioning.	No change
We will actively engaging in market development and market shaping where no such market currently exists and using insight to manage specification and demand.	No change
We will invest and use our financial strengths and trusted brand to deliver a financial return.	No change
We will attract alternative investment models to support service delivery, e.g. through social investment.	No change
We will reassess our expectations of our sector and think big and bold in what we can achieve.	No change
We will ensure all viable options that create a sustainable asset should be considered in service redesign.	No change
Workforce & Productivity	
Develop the right organisational design that enables delivery of Mayoral priorities, including structure, pay and grading framework, and capacity.	No change
We will invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future.	No change
The Pay bill should not exceed the annually determined budget percentage.	No change
We will consider where automation or digital delivery mechanisms are more appropriate.	No change
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).	No change

Current	Revised Principles
Maximising Asset Utilisation	
We will invest in the development of an inventory and valuation system, with clear accounting standards.	No change
Where it is fit for purpose, we will seek to optimise the infrastructure that we have already invested in.	No change
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.	No change
We will review restrictive regulation and dysfunctional incentives that encourage waste and low-value use.	No change
Treasury Management: We will retain a working balance (agreed annually) and invest residual funds to generate increase return on investment.	Moved under Balance Sheet Management
We will ensure all of our assets demonstrate value generation, e.g. no idle assets.	No change
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 target a minimum Net Return / Yield on Commercial Property Investment of 5.00%, or less than 5.00% but with regeneration or social value opportunities
We will save costs and reduce carbon through smarter use of energy.	No change
We will seek to leverage optimum funds from our estate including opportunities for pension fund investment where this provides best value.	No change
Smart Technology	
We will optimise the infrastructure that we have available in exploring the 'Internet of things (IoT) with the objective of reducing our current	No change

Current	Revised Principles
costs base.	
We will implement a twin track approach; prototyping appropriate concepts with strategy development.	No change
We will leverage other public and private sector investment for new market developments that transform and future proof services at a reduce costs.	No change
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.	No change
Partnership Working and Earlier Intervention	
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.	No change
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.	No change

Capital Strategy

Introduction

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.
2. The Strategy forms part of the framework for financial planning and is integral to both the Medium Term Financial Plan (MTFP) and the Treasury Management Strategy (TMS). It sets out how capital investment will play its part in delivering the ambitious long term strategic objectives of the Council, how associated risk is managed and the implications for future financial sustainability. The strategy is also in line with the Ministry of Housing, Communities and Local Government's (MHCLG) 2018 statutory guidance on local government investments, particularly as regards non-financial investments.

Scope

3. This Capital Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority, but also those entered into under group arrangements. It is currently an outline strategy and will be developed further as the One City Plan and other strategies, including asset management, are progressed and refreshed annually in line with the MTFP and TMS.

Capital Investment

4. In contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services, capital investment seeks to provide long-term solutions to Council priorities and operational requirements that yield benefits to the Council generally for a period of more than one year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets or, generates economic and social value and an income stream to the Council via non-treasury investments.
5. The five aims of the Capital Strategy are:
 - i. To take a **long term perspective on capital investment** and to reflect the Council's wider place-making and inclusive growth agenda. This will ensure the Capital Strategy is aligned to Bristol's ambitious Local Plan. The Capital Strategy at the same time brings together the investment requirements of Bristol's Corporate Strategy and its Asset Management Plan
 - ii. To ensure investment is **prudent, affordable, and sustainable over the medium term**. The Council will ensure that any borrowing in advance of need for commercial investment is commensurate with the resources of the authority in accordance with the CIPFA Statement issued October 2018.
 - iii. To strengthen the arrangements and **governance for investment decision-making**
 - iv. To make the **most effective and appropriate use of funds available** - including capital receipts and housing right-to-buy receipts – in order to deliver the Council's strategic aims.
 - v. To establish a **clear methodology to prioritise capital proposals**. The methodology aims to strike a balance between the resourcing principles set out in the MTFP and highlighted below.

- Investing for inclusive growth
- Invest to save and to generate returns
- Investment to improve and maintain Council assets

These principles are more fully defined below. Principles for commercial investment are set out in 28 and 29 below.

6. The Council will ensure that all of its investments types are covered in its Capital Strategy, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for its non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
7. The Council will compile a schedule setting out a summary of its existing material investments and liabilities including financial guarantees together with the Council's associated risk exposure

Policy Context

8. The Council like many other local authorities faces a challenging financial climate, and the Capital Strategy therefore emphasises affordable and sustainable solutions and income generation including maximising external funding opportunities.
9. The **Corporate Strategy** 2018-23 sets out the Council's vision and priorities for the City and the activities based around the following four themes:
 - **Empowering and Caring** – Working with the City to empower communities and individuals, increase independence and help support those who need it. Give children the best possible start in life.
 - **Fair and inclusive** - Improve economic and social equality, pursuing economic growth that includes everyone and making sure people have access to quality learning, decent jobs and homes they can afford.
 - **Well connected** - Take bold and innovative steps to make Bristol a joined up city, linking up people with jobs and with each other.
 - **Wellbeing** - Create healthier and more resilient communities where life expectancy is not determined by wealth or background.
10. Aligned to the Corporate Strategy are a number of complementary plans and strategies in development. Examples include:
 - **One City Plan** - The Council recognises that it is one organisation in a hugely complicated system, where everyone has a role to play. Because of this we are a partner in an emerging One City Plan. This is being developed by many different partners covering almost every aspect of life in Bristol; all have a role in making Bristol a thriving, healthy and more equal city in the future. It is an ambitious, collaborative approach to reach a shared vision for Bristol.
 - The Council is finalising its **Inclusive & Sustainable Economic Growth Strategy**. It is recognised Bristol's successful local economy has not always delivered prosperity evenly across citizens. Increasing economic inclusion will provide a boost to local economic growth and provide sustainability and resilience.
 - With other local authorities the Council has prepared the **West of England Joint Spatial Plan**. This includes a requirement for new and affordable homes to be delivered in Bristol by 2036. The Council is currently reviewing its **Local Plan**. The Core Strategy of the Local Plan was adopted back in 2011. The Council is now

considering how Bristol will develop up to 2036. The Local Plan will be updated to set out how the proposed homes will be delivered and show how the Council could exceed current expectations.

- The **West of England’s Joint Transport Study (JTS)** sets out an ambitious vision for transport to 2036. A **Joint Local Transport Plan (JLTP4)** of transport packages that will transform the travel choices available to residents and visitors is being taken forward by the Council and partners. The Council is a key contributor to schemes set out in the JTS. This will provide transformational infrastructure that responds both to the existing transport challenges, and our Core Strategy growth.
- It is expected that the Council’s **Asset Management Plan** will be developed in 2019/20 and as a result this outline Capital Strategy will be refreshed as appropriate to ensure alignment.

Principles for Capital Planning

11. The Council will operate a clear and transparent corporate approach to the prioritisation of all capital spending.
12. Delivery of the Strategy will be overseen by a joint member/ officer executive delivery board, chaired by the Deputy Mayor Finance, Governance & Performance. These effective governance arrangements will ensure the Capital Programme is effectively managed and for companies that are wholly owned or the Council has a material interest these extend to the Shareholder group.
13. Investment principles are set out in Table 1 below:

Table 1 Investment principles	
Investing for inclusive growth	The Council will expand its capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City
Invest to save and to generate returns	The Council will invest in projects which will <ul style="list-style-type: none"> • reduce running costs • avoid costs (capital or revenue) that would otherwise arise • invest to generate a financial return (invest to invest).
Investment to improve and maintain Council assets	The Council will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery
Risk aware	The risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

14. Where appropriate the Council will invest in Smart Technology in order to stay at the forefront of service delivery.
15. The Council owns freehold land across the City where it has granted long leases to Developers and Investors, and from whom we take ground rents of various kinds as investment income. This portfolio generates a revenue return. The return is not a significant element of the net revenue budget and therefore the scale of investment is proportionate and the risk is at a manageable

level. In addition to the revenue return the Council receives capital receipts in exchange for restructuring existing lease terms.

16. Investment properties are regularly revalued to market level under a rolling programme. The top 150 properties by value have a formal valuation report annually. Other properties are valued over a 5-year cycle. In between valuations property indices are used for the lower value properties.
17. Where appropriate the Council will invest in wholly or partly owned companies where this is the most appropriate means to deliver strategic objectives. The Council will also make Parent Company Guarantees (PCG) in appropriate circumstances. It will also make third party loans where this is appropriate. These arrangements will be monitored through the Governance arrangements set out in Section 8. Appropriate disclosures will be made in the statement of accounts, including the fair value of such investments.
18. When entering into non-financial investments the Council considers the balance between security, liquidity and yield based on its risk appetite. It also considers the contribution of the non-financial investment to a range of outcomes including City growth, redevelopment and income.
19. Bristol has not borrowed for outright investment purposes.
20. The Council is not overly dependent on profit generating investment activity to achieve a balanced revenue budget. Any shortfall in investment income would be reconsidered as part of the MTFP. The quality of the long term and secure investments minimises the income risk.

Funding Capital Investment

21. The Council's capital programme is reviewed annually as part of the budget setting process, and approved by the Cabinet and the Council.
22. The Council funds its General Fund capital investment from a range of sources, which are principally
 - Prudential Borrowing
 - Grants
 - Capital Receipts
 - S106 / Community Infrastructure Levy (CIL)
 - Revenue and Reserves
23. The **HRA Capital and Revenue Investment Programme** is entirely funded from the ring fenced HRA. It is a rolling 5 year outlook based on stock condition and planned projects. Key areas of housing investment set out in the Capital and Revenue Investment Programme include planned and cyclical works; mechanical and electrical and heating; accessible homes and repairs. The programme also includes development and special projects. The HRA capital programme is funded from:
 - HRA Self Financing (The Major Repairs Reserve (MRR))
 - Capital Receipts (HRA)
 - Revenue and Reserves (HRA)
24. The Council's TMS sets out how the Council will fund its capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow

surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Capital Financing Policies

25. This section sets out in more detail how the Council will ensure its investment decisions are consistent with its investment principles and MTFP.

The Council's Prudential Borrowing Commitment	The Prudential Borrowing Commitment is not expected to increase over the envelope outlined in the capital programme and will only be increased where there is an appropriate cashable return based on robust evidence
Substitute schemes	Schemes financed by prudential borrowing may be replaced on a like-for-like basis provided the successor scheme has no additional cost not already provided in the MTFP
Evidence based	Projects and their delivery will be validated against economic reality. A clear statement of the benefits to be realised by projects will be required
Calculating the return on investment	The business case for a project funded by prudential borrowing must <ul style="list-style-type: none"> • Include the cost of servicing the debt • Demonstrate the ability to achieve a 6% discounted rate of return over a 7-year period. In appropriate circumstances a different discount rate or payback period will be used for the calculation. • The payback criteria will be reviewed in 2019/20.
Invest to save projects	<ul style="list-style-type: none"> • Cashable cost reductions or increased income must exceed the financing costs of borrowing over the pay-back period.
Invest to grow projects	<ul style="list-style-type: none"> • Increased income must exceed the financing costs of borrowing over the pay-back period. • For major developments the increased business rates income may be taken into account • The pay-back calculation should reflect proposed capital receipts

26. The first priority for capital investment is Essential Schemes. These are defined in the Table below. Only schemes that meet at least two of the essential criteria will be defined as essential

Statutory Obligations	The Council would <ul style="list-style-type: none"> • fail to meet its statutory obligations if the scheme did not proceed • all other mechanisms for funding the project have been exhausted
Key Corporate Strategy Commitments	The scheme can directly deliver on one or more of the key Corporate Strategy commitments for the next 5 years <ul style="list-style-type: none"> • It is to be 100% funded from external resources (ring-fenced grants or other outside contributions)

	<ul style="list-style-type: none"> It is to be funded by capital receipts which exceed the investment and will only be generated if the project proceeds.
Self-financing	<p>The ongoing revenue implications of the project are generated</p> <ul style="list-style-type: none"> through external funding result in a reduction in revenue costs contributing to overall MTFP savings targets.

27. Non-essential projects may be prioritised depending on their goodness of fit to the six criteria set out in Table 4. The scores will be indicative and provide a guide for decision making.

Criterion	Definition
Levering in additional funding	<ul style="list-style-type: none"> The project levers in external support, or attracts additional funding into Bristol. This may be either financial resources directed to the Council or the Council working in partnership with other bodies
Cashable savings	The project will bring about future cashable revenue savings (or cost avoidance where the pressure is built into the MTFP)
Corporate Strategy	The project meets a key service objective, that aligns to corporate strategy
Sustainable economic growth and regeneration	The proposal can be shown to support the delivery of sustainable economic growth and regeneration
Asset Management Plan or Transport Asset Management Plan	A need for the proposal has been identified in these plans
Maintaining priority service levels	Failure to provide the project would result in a significant reduction of the Council's stated level of priority service
Community Infrastructure Levy	CIL or S106 will be directed to the delivery of the project

28. Loans and Investments in companies which we have material shareholdings are assessed differently, as these are prioritised based on delivery of strategic objectives. When considering these investments the Council will examine the Business Plans available to ensure that the plan and the investment is sound, facilitates the delivery of the long term strategy and wider social, economic and or financial benefits will be received back to the Council and residents in the short, medium or longer term.

29. Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. The appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered and the Chief Finance Officer will ensure affordability

and the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

30. The council will be required to monitor company operations and this will take the form of regular performance and financial monitoring reports to Shareholders.

Governance of the Capital Strategy

31. The Capital Programme will be agreed by full Council as part of the annual budget setting process. Variations to the Capital Programme or in-year additions – subject to delegation – will be agreed by Cabinet.
32. A joint member/ officer Executive Delivery Board, chaired by the Deputy Mayor for Finance, Governance & Performance will oversee delivery of the Strategy.
33. The formal scrutiny process will be used to ensure effective challenge.
34. The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy. Where appropriate the Chief Finance officer will have access to specialised advice to enable them to reach their conclusions and ensure sufficiency of reserves should risk or liabilities be realised.
35. The Executive Delivery Board's role will be to monitor and assess the effectiveness of the capital programme in delivering the Council's strategic objectives. It will also monitor the Council's non-financial investments. It will monitor the appraisal of new investments, ensuring appropriate techniques are used.
36. Growth and Regeneration Board will review all infrastructure projects prior to escalation to the Executive Delivery Board.
37. ICT capital investment proposals, along with Transformation and other Short-Life Assets will in the first instance be reviewed through a specific officer working group
38. Terms of Reference will be produced for these groups

Risk Management

39. One of the Council's key investment principles is that all investment risks should be understood with appropriate strategies to manage those risks. All projects are required to maintain a risk register and align reporting to the Council's reporting framework.
40. No project or investment will be approved where the level of risk - determined by the Cabinet or Chief Financial Officer as appropriate - is unacceptable.

Skills and Knowledge

41. Appropriate training will be provided to all charged with investment responsibilities, including members of the Executive Delivery Group. Training will be provided either as part of meetings or by separate ad hoc arrangements.
42. When considering commercial investments, the Council will ensure that appropriate specialist advice is taken. If this is not available internally it will be commissioned externally.
43. Appropriate use will be made of the Council's Treasury Management advisers

Delivering the Strategy

44. The Capital Programme is revised annually as part of the budget setting process, and approved by Cabinet and the Council. Any significant in-year variations to the programme required Cabinet approval.
45. Performance of the Capital Programme is part of the monthly financial monitoring process.
46. Arrangements will be made to align delivery of key milestones to the financial monitoring, and reported to Cabinet on a quarterly basis.

Review

47. The Capital Strategy will be reviewed annually to ensure it remains fit for purpose and enables the Council to make the investments necessary to deliver its strategic aims.