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 period002E*

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

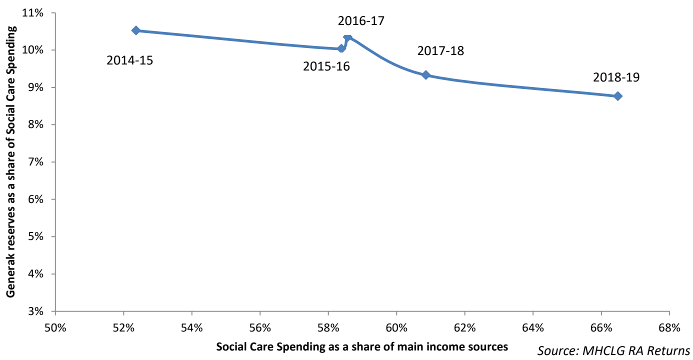
24. Local government is accustomed to operating in an environment where resources are constrained with potentially infinite demand for services. Resource decisions, therefore, inevitably involve an element of prioritisation and most involve some form of rationing based upon need.

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

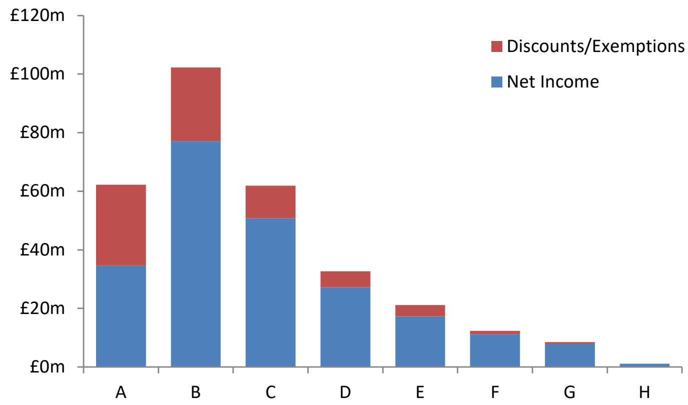


Council Tax

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.

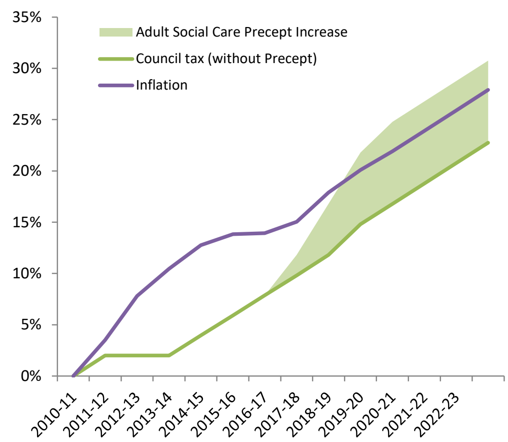
Figure 2: Net Council Tax Income and level of discounts and exemptions by band



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.*

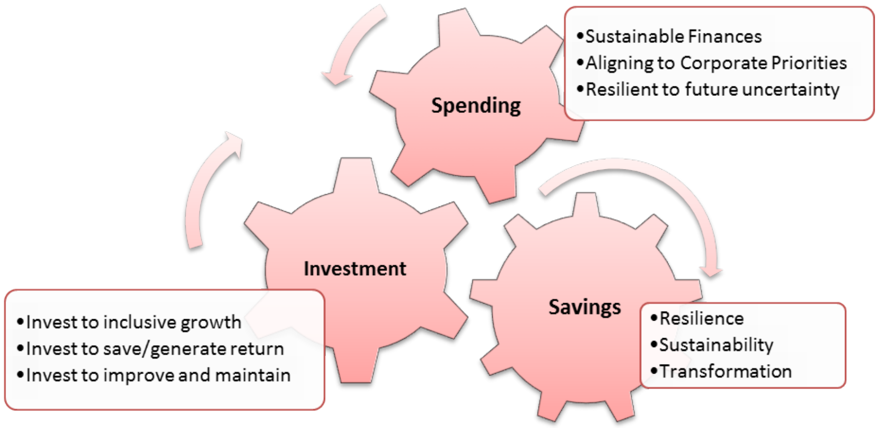
44. *Budgetary assumptions for 2019/20 and the years beyond have been reviewed where appropriate and the material changes to the MTFP as a result of this review are as follows:*

	19/20 £m	20/21 £m	21/22 £m	22/23 £m	23/24 £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 be 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

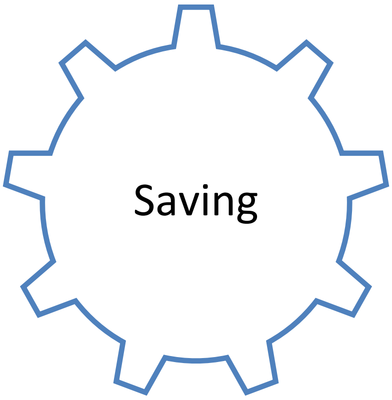
The risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

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.