Comment from the Chair 24/10: This statement (1st of 3) has been reviewed by all members of the task & finish group and finance officers. Suggested amendments have been incorporated. It has been cleared to be made public. The Medium Term Financial Plan section will change all the time so the numbers you see next week won't totally agree with the ones you see here. Statement 2 will be in December on the actual 2020/21 budget assumptions and statement 3 comes in February helping explain the Mayor's proposed budget to members of Full Council before we all vote on it.

1.0 The purpose of this statement is to enable Members of Resources Scrutiny to question officers about the Capital Strategy (pages 1 and 2) and the Medium Term Financial Plan (pages 3 and 4).

1.1 Contributors to the Finance T&F with big thanks to: Mike Pilcher, Tian Ze Hao, Denise Murray and Johanna Holmes. Plus Councillors Tim Kent, Don Alexander (Jon Wellington), Marg Hickman, Mark Weston and Geoff Gollop.

2. Executive Summary: Capital Strategy

2.1 The self-imposed rules for the Capital Strategy seem to meet the joint needs of financial discipline and also allowing political flexibility. The Task and Finish Group helped Finance clarify some of the criteria and asked them to assess whether existing projects meet them. They do. There is a proposed 10% limit on total financing cost which will come to Cabinet on 5th Nov, the effect of which needs to be better understood and if implemented would force quite rigorous prioritisation and tough decisions.

2.2 We also noted that Social Value was missing from the list. The group was split as to whether this mattered.

2.3 What is the relative amount of invest to save projects compared with all capital spend? In late 2016 it was only 8 or 9%, Denise will provide us with the latest plan. Invest to save is what helps keep the Council within its funding limits. Additionally can we invest to save SEND costs? Denise to let us know.

2.5 Capital Strategy: Detail

2.6 Since 2018 Local Authorities have had to have a Capital Investment Strategy. The one described below is the second iteration.

The capital strategy is the set of rules to be approved by Full Council by which Capital Investment decisions are taken. It is about shaping the Council's offer to Bristol over time.

2.7 Capital investment falls into three categories:

-invest for sustainable, inclusive growth in Bristol,

-invest to improve or maintain services or infrastructure and

-invest to save and generate a return. Suggested targets are commercial investments at a minimum of 5% return over 7 years including any demonstrable end of term value; and social impact investments with a minimum return of 4% over 10 years and a similar end of life analysis. These take account of anticipated increases in PWLB interest rates (i.e. borrowing from Government)

2.8 Capital investments should meet the following five aims:

2.8.1 - reflect the Council's role in supporting the one city plan, the emerging local plan and other key strategies (e.g. corporate plan).

2.8.2 - investment should be prudent and affordable. The policy aim is to limit the long term total cost of financing investment to 10% of general fund income. This includes interests and MRP for example. Currently this is running at 9% (adding back in MRP drawdown and including PFI) and is forecast to climb to nearly 12%. Limiting it to 10% might mean limiting investment in Goram Homes as a controversial example designed to trigger questions.

2.8.3 - arrangements for investment decision making will be through existing governance boards.

2.8.4 - make the most effective and appropriate use of funds and optimal finance approaches (e.g. internal funds, borrowing from various sources…)

2.8.5 - Projects will be either priority 1 or priority 2. More on this fifth aim:

2.8.5.1 Priority 1 are either statutory obligations or the project will deliver one or more of the one city plan or corporate strategy commitments (within 5 years) and is funded externally AND ongoing revenue costs are fully contained in existing budgets either from external funding or savings.

If the final business case fails the priority 1 tests the project will be put in priority 2.

2.8.5.2 Priority 2. There is a list of seven criteria against which to judge (but not including social value). These will be in Finance's slides at the meeting.

2.8.6 Key existing programs have been briefly checked against these criteria to test the validity of these draft new criteria. The raw findings are: Of the current priority 1 projects Avonmouth/Severnside Flood Defence, Cumberland Road and SEND investments would stay as priority 1, Colston Hall refurbishment fails the priority 1 tests and would be moved to priority 2.

Some existing capital projects in progress were also briefly tested against the seven priority 2 criteria. They are Temple Meads Development, IT Transformation, Heat Network, Colston Hall and Better Lives. They all passed one or more of the criteria. The checklist needs further refinement so these are preliminary findings only. But it is thought that this checklist can be made into a useful tool to help Cabinet decide on priorities. Which they will certainly need to do if the Mayor wants to stay within the 10% funding cost rule.

2.9 More on the proposed 10% funding rule. It would not apply to HRA. It has been benchmarked against other core cities which are running at 5.6% Newcastle (Bristol is at 6.1% without adding back in MRP drawdown effect) all the way through to Birmingham at 32%. Yes that means 32% of Birmingham's business rate and council tax income pays interest and MRP. (MRP = minimum revenue provision, when the Council spends capital it has to pay interest and account for about 2% a year like depreciation, this is called MRP). We think these figures include PFI and it might be worth restating them without for better comparison.

3. Medium Term Financial Plan (MTFP) – Exec Summary

3.1.There is a slide that Finance will show showing the impact nationally of eight years of austerity on a typical Council's General Fund. Overall funding in real terms dropped 20% over those years. Social care stayed about 0% and so funding for everything else like waste, libraries, parks, trees, grants, discounts etc dropped 40% in real terms. Inflation from 2011 to 2019 was 20.9% (cumulative) so nominal funding nationally has stayed about the same. It is a similar picture for Bristol and is why budgets back in 2011 are about the same amount in £m terms as now.

3.2 So is Austerity over? Or is it a pause? New funding promises seem to offer between £11.4 up to £19.6m one off opportunity in 2020/21 plus a £4.4m improvement in baseline funding for everyday services (and Social Care). This funding is based on big assumptions you should challenge, and there are big risks you will wish to explore. Please read on….

3.3 Medium Term Financial Plan – Detail

3.3.1 The Local Government Settlement brought two surprises. Firstly that it came out at all and secondly there were some signalled funding increases. If it materialises the modelled impact translated to Bristol is as follows:

- 100% business rates trial continues one more year. The New Homes bonus continues but there is no commitment to legacy payments beyond 20/21. A forecast increase of £8.2m Adult Social Care grants. All these are taken as one off funding in the MTFP.
- Additionally £7.3m of ASC ongoing funding (not just one year) and the ability to raise Council Tax by up to 2% and a further ASC precept of up to 2% (this is worth £4.36m). Extra £0.36m to help with homelessness and rough sleeping (up 13%).
- Those two above have been taken as baseline funding in the MTFP.
- Increase of £1.55m in Public Health (ring fenced) = 4.9%
- Education (ring fenced in Direct Schools Grant, DSG) is for three years. With 4% per year each year in the baseline lifting to £12.46m by year 3 (2022/23). All primary schools to get a minimum of £4k per pupil, Bristol average will be £4,098 and secondary to minimum of £5k, Bristol Average £5,295. The High Needs Block gets an 11% lift of £5.9m which stays as an extra £5.9m for each of the three years). But the ability to transfer from the schools block to the high needs budget is now limited to 0.5% (£1m). This means that if High Needs Costs stay as forecast (see pressures) the £2.4m deficit paid by bringing funds forward from 20/21 will reduce to zero by 2022/23.

This means the MTFP headline deficit ()/surplus are as per the table below: Feb MTFP was the previous one. BL = baseline, units in £millions. Numbers add up across starting November BL.

3.4 MTFP Oct 2019 General Fund (not DSG, not HRA and not P.Health - Figures at 21/10/19)

	Feb BL	Oct BL	One off funding	One off commitments	Net position
2020/21	£0.0	£4.4	£19.6	£0.0	£24.0

This is positive £24.0 so more funding than commitments!! But check the assumptions below.

2021/22	£0.0	£4.2	£3.5	£0.0	£ 7.7
2022/23	(£5.4)	(£1.6)	£1.4	£0.0	£ 0.2

Table on page 3. Reading the headings from left to right you can see funding has been divided into two types: baseline funding BL less the forecast costs of on-going commitments, so 20/21 is £4.4m forecast surplus. Then the use of one-off funding to pay for one off cost commitments. Then the £24.0m is the forecast total for the year. This should be questioned. Note: There are forecast (not shown) for the further two years, these suggest under funding of (£4m) to (£5m)/year.

The table raises some questions. How secure is the Government Funding? What to do with the £19.6m? Should we assume £8.2m must be on ASC? And how robust are the assumptions? The risks? Other pressures and opportunities…

<u>3.5 MTFP Assumptions:</u>

3.5.1 It has been assumed that Council Tax will be increased by up to 2% per year for the five years and Social Care Precept up to 2% next year only. Next year's amounts have just gone out to consultation in a similar format to last year's. This assumption deserves real scrutiny given possible funding increases.

3.5.2 Pay inflation up 2.7% per year (due to living wage) every 1% more costs £1.8/year.

3.5.3 All service pressures are contained and the £15.5m of savings that are still to be delivered are delivered. These include £4m of better lives (ASC) currently over budget, £4.5m of childrens' care (strengthening families) and increases in fees and charges for council services £3m. The remaining £4m is made up of seventeen other projects.

3.5.4 There are <u>pressures</u> as follows: Pension (McCloud Judgment – ask Denise), Air quality zone costs (if not self-funding), property strategy…The Queens Speech has four new Bills which could increase Council costs if not funded.

3.5.5 And <u>risks</u>: Student numbers grow faster as a % than housing numbers (currently balanced) Denise is providing detailed information when the Council Tax Base report comes out.

3.5.6 And supposed <u>opportunities:</u> IT Transformation. Everywhere else this is listed as a risk, you might want to ask why this is thought of as an opportunity? Capital financing delays meaning lower interest and MRP costs. This happens every year but isn't necessarily good. The extra care housing for ASC has been re-profiled thus putting on more pressure regarding better care with cost savings. (Comment from Clive, invest to save projects should be prioritised).

3.6. So what to do with the £19.6m of one-off funding in 2020/21? (With £8.2m of that for ASC) The T&F Group saw a list of possible projects which you will see on 31/10. So investing revenue into projects and putting some of the money into reserves so it can be carried forward to later years (for more effective spend).

3.6.1 The reserves categories proposed are Climate Emergency and City Resilience (to economic and environmental risks should they occur) and Health and Safety. What % should go into reserves and what should be invested and should any one off funding be used to fund on-going commitments?

3.7. There are some changes to the MTFP principles which appear minor changes but are political so reducing grants in favour of loans to those with concessions, groups and businesses with social value. More transparency is promised. The T&F Group wanted to see this for reserves too.

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