Medium Term Financial Plan 2021/22 – 2025/26

1. Introduction

1.1. The Medium Term Financial Plan (MTFP) is a key part of Bristol City Council's (the Council) Policy and Budget Framework and financial planning process. It sets out the Council's strategic approach to the management of its finances and provides a financial framework within which delivery of the Council's priorities will be progressed.

1.2. The MTFP is a rolling 5 year plan which is currently covering the period 2021/22 to 2025/26. It is intended to outline, in broad terms, the specific service and funding issues over the 5 year period and how the Council will, within its financial constraints, fund its priorities and ensure financial sustainability and resilience can be achieved.

1.3. It is important to understand that the MTFP does not constitute a formal budget. It provides the financial outlook, context and resourcing principles for the annual budget setting process, considerations of the Council's budget requirement and Council Tax levels. As a living document it is subject to annual review and revision. It needs to be responsive to changing national and local conditions, in order to take account of emerging risks to the Council's financial position and to protect the financial health of the Council.

1.4. Final decisions on the overall Budget and Council Tax level will be made by Council in February 2021.

2. Executive Summary

2.1. The COVID-19 pandemic has had a considerable impact on the Council and the City. In responding to the public health, social and economic crisis the Council has taken steps to support its residents, businesses, suppliers and the wider community. There is much uncertainty as to what lies ahead and the associated long term impact on public finances.

2.2. In this respect, the most immediate issue is the effect of COVID-19 on the Council's budget which is considered in detail in the report and provides the backdrop to the annual refresh of the financial plan for the period 2021/22 to 2025/26 so that consideration can be given to the formulation of a budget for the next financial year and over the medium term.

2.3. In assessing the financial outlook and defining the key components of the general fund financial plan, we have separately assessed COVID-19 and one off related financial challenges, impact and mitigations from other non COIVD-19 related risk and opportunities.

2.4. The **COVID-19 and one-off** related financial challenge for the Council is currently estimated to be circa. £72.7m over the medium term on the General Fund. This is predominantly attributed to additional costs incurred in responding to the pandemic and significant loss on income directly related to restricted activities and/or the changing economic climate and barriers in delivering transformative efficiencies. Of the shortfall £28.3m will impact on the Councils budget in 2020/21.

2.5. This indicative projection on funding gap takes into account the assessment of further reductions in the Council's planned tax bases (council tax and business rates) and the impact of COVID-19 on 2021/22 and beyond. This includes £38.2m attributed to the collection fund deficit (Council tax and business rates) and that we are anticipating, as outlined by government, changes will be introduced so that tax deficits from 2020/21 only can be spread over 3 years rather than one.

2.6. At the time of writing, the estimated Government financial support is expected to be in the region of £53.6m, supporting 73.6% of the estimated shortfall. Following adjustment of our key assumptions (section 6.26) this leaves a general fund budget gap of £19.2m over the MTFP period.

2.7. All figures above contain a level of uncertainty and the recent introduction of more stringent social distancing measures which are expected to be in place for the remainder of 2020/21, this will mean the scale of the shortfall is likely to vary. Whilst we have modelled scenarios, the actual outturn losses incurred and corresponding funding will be determined by the need, costs, scale and duration of ongoing impacts of the crisis.

2.8. As at Period 5 2020, £10m of the total planned transformation efficiencies programme for the MTFP period are being reported at risk for non-delivery (£6m in 2020/21 and £4m for future years). The savings gap is largely attributed to adult and children social care, commercialisation and facilities management. These will be subject to review under the 2021/22 budget setting process.

2.9. COVID is expected to have an impact on both income collection and service delivery for the Ring-fenced Housing Revenue Account (HRA). Increased financial hardship for tenants is expected to lead to an increase in rent arrears, and the potential for a material number of tenants supported by Universal Credit due to the impact on the wider economy. This will be partially mitigated by the delays in delivering the capital programme and planned maintenance works over this period albeit emergency works on dwellings will still be required. The Housing Revenue Account is forecasting a balanced position with the ability to contain variations within the associated HRA earmarked reserve.

2.10. In relation to Ring-fenced Public Health service, the COVID-19 pandemic has resulted in reprioritisation of resources for outbreak management including identifying and managing cases, clusters and outbreaks, providing a 7 day acute rapid response (over the a 18month to 2 year period), and providing specialist public health advice to the Council, partners and members of the public.

2.11. The Forecast deficit for the Dedicated Schools Grant (DSG) is £8m as at P5 2021/22. This deficit is predominantly driven by significant year on year increases in the volume and needs within the Education Health Care Plans (EHCPs). The DFE have provided additional funding to schools to cover some of the additional costs as a result of COVID-19 for the period March to July 2020. Further funding beyond July 2020 has not yet been announced. The additional funding does not however cover the costs of loss of self-generated income which the DFE recognise will put some schools budgets under pressure. In addition schools are experience a variety of additional pressures to ensure the safe running of their establishments which are not covered by the additional funding and there will be cost pressures affecting budgets for many schools.

2.12. In facing these future uncertainties, this MTFP focuses on the Council's financial sustainability, recovery from COVID-19 and its resilience in dealing with any future shocks.

2.13. The recovery from this public health crisis also presents the Council with an opportunity to solve some of the City's most intractable problems – from rough sleeping to climate change as the world has changed, and the Council can look at closely at the services it provide, what will stop, start, continue or re-scope moving forward and what are the most important to local residents, businesses and communities.

2.14. The Council currently holds reserves (unallocated and earmarked) circa £202m, some of which is likely to be utilised to fund any net funding gaps that are not covered by further government financial support, local service transformation or efficiencies. It is recommended that the long term plans going forward include a provision for building these reserves back up for the original purpose intended.

3. Governance

3.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management (FM) Code aims to ensure that each local authority has in place appropriate financial management arrangements. The FM Code will apply to all local authorities, including police, fire and other authorities from 2021/22.

3.2. It is designed to support good and sustainable financial management throughout the full financial cycle of financial planning, budget setting, in-year monitoring and reporting and statutory reporting. It will provide assurance of prudent use of public resources, effective management of resources, adherence to legislative requirements in our jurisdictions and evidence of good governance. The framework sets explicit standards of financial management and complying with the standards will be the collective responsibility of elected members, the Chief Finance Officer and the leadership team.

3.3. In respect of financial planning the Council can demonstrate the following on its journey to full compliance:

- The Council's Policy and Budget Framework, Financial Regulations and codes such as The Prudential Code for Capital Finance and Treasury Management Code of Practice and due regard to our statutory duties, have been integral in guiding the financial planning arrangements and propositions within the MTFP.
- Links to the Council's Corporate Strategy, contributing to the One City Plan and delivery of our top priorities.
- Long term financial forecasting and medium (5 year) financial planning is undertaken with the proposed allocating of resources towards short, medium and long-range goals.
- Forecasts future known additional spending requirements, likely resources, emerging pressures, opportunities and risks.
- Aligning overarching spending plans to an assessment of the future available resources and where there is uncertainty proposing the measures to be considered to ensure financial sustainability and resilience.
- Ensuring elected members and officers (typically through a series of iterative briefings / working groups and scrutiny sessions) are informed and have the ability to scrutinise and scope the high level proposals during development.
- Through the process where appropriate and or necessary, we will also consult the public on subjects such as Council Tax increases, with the output feeding into the Council Tax levels and budget recommended to Council for approval.

3.4. The council will continue to assess its compliance with the new FM Code and take the necessary steps to demonstrate sustainability and resilience and ensure the Council's readiness for compliance through the 2021/22 budget cycle.

4. Council Priorities

4.1. The Council approved Corporate Strategy 2018 - 2023 set out the vision for Bristol and the priorities to be delivered Pre-COVID-19:

"Our vision is for Bristol to be a city:

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

"Aspiration and equality" lie at the heart of the vision for building a better Bristol.

4.2. In light of the COVID-19 pandemic the Corporate Strategy will be revised in 2021 to respond to the changing needs of our workforce, residents and businesses.

4.3. This MTFP seeks to complement the Corporate Strategy and the Council's contribution to the One City Plan (long term), setting out a framework to ensure the Council lives within its means and can target available resources to the priority areas outlined. Any revision of the Corporate Strategy in 2021 will be captured in the next refresh of the MTFP.

5. Financial Context and Outlook

The financial outlook focuses the implications of the following over the period of 5 years:

- Forecast impact of COVID-19 Pandemic and the financial recovery:
  - Global and national economic factors
  - Regional and local economic factors
  - Local Covid Impact
  - Local economic recovery planning

Economic and Financial Context

Global and National Context

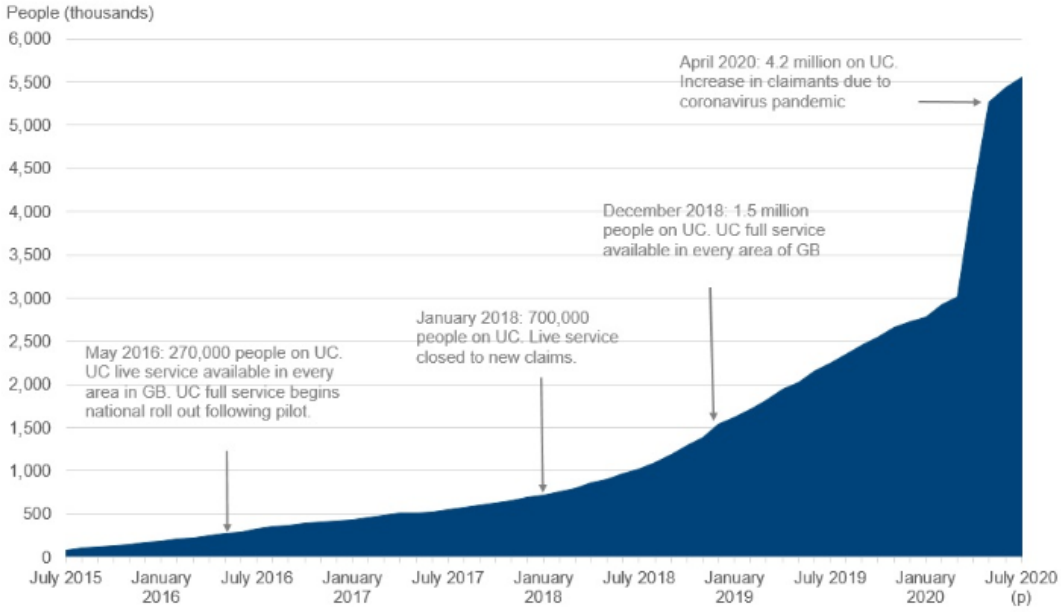
5.1. At the time of writing this report, amid the COVID-19 Pandemic, the UK is on the verge of a second outbreak heading into the autumn/winter season. The Office for Budget Responsibility (OBR) has published 3 possible scenarios in July for the UK economy as it tries to recover from the pandemic. The central case scenario indicates the economy recovers more slowly than previously anticipated, with Gross Domestic Product (GDP) falling by 12.4% (10.6% and 14.3% under the upside and downside scenarios) in 2020 and regaining its pre-virus peak by the end of 2022. Business investment is 6% lower over five years than expected before March. Unemployment and business risk are significant, which are exacerbated by lower levels of investment mean the level of GDP after inflation is estimated to remain 3% lower in 2025 than previously anticipated.

5.2. At a national level in responding to the pandemic the government have put in place a number of schemes to support businesses and individuals. However, this has significantly increased government borrowing. The budget deficit (shortfall between tax income and expenditure) reaches 16% of GDP (£322bn) in 2020 (13% and 21% under upside and downside scenarios). The UK's national debt / total budget deficit increased above 100% GDP for the first time since the early 1960s. This is in stark contrast to the net deficit of £25.5bn at end of March 2019. The official statistics are yet to incorporate expected losses on government-backed loans to companies and

£24bn of new spending for the NHS, vaccines and coronavirus testing which will push the figure in excess of £400bn.

5.3. Unemployment has more than doubled from 1.3 million in 2019 to 3.5 million by 2021, outstripping the impact of 2008 financial crisis. This is also partly evidenced through the significate increases in the number of Universal Credit claimants between April and July due to the pandemic reaching over £5.5m in July 2020.

Figure 1: Universal Credit Claimants



5.4. The total unemployment rate at the end of July 2020 was 4.1% (and it is estimated that in all scenarios, prospects for employment and unemployment will depend heavily on what happens to furloughed workers once the CJRS is closed at the end of October 2020 and the take-up of the job support scheme by employers. Assumptions were made that unemployment would continue to rise beyond the second quarter, despite output recovering to an extent. The unemployment rate is estimated to peak at 12% in the fourth quarter in the central scenario (10% and 13% in the upside and downside scenarios).

5.5. Now that the UK has formally left the EU, there is a transition period until the end of 2020, while the UK and EU negotiate additional arrangements. Current rules on trade, travel and business will continue to apply during the transition period. New rules will take effect on 1 January 2021. The economic implications of Brexit are still very difficult to forecast and quantify with the terms of exiting the European Union yet to be confirmed. Some of these uncertainties, changes in policy and how potential changes to legislation will impact on services (such as EU targets around waste and recycling) are still yet to be seen. More information about the Council's preparation for Brexit can be found here: https://www.bristol.gov.uk/mayor/bristol-and-brexit.

5.6. Climate change also remains a significant concern for the future resilience of the environment. While the COVID-19 restrictions on travel and work did lead to a

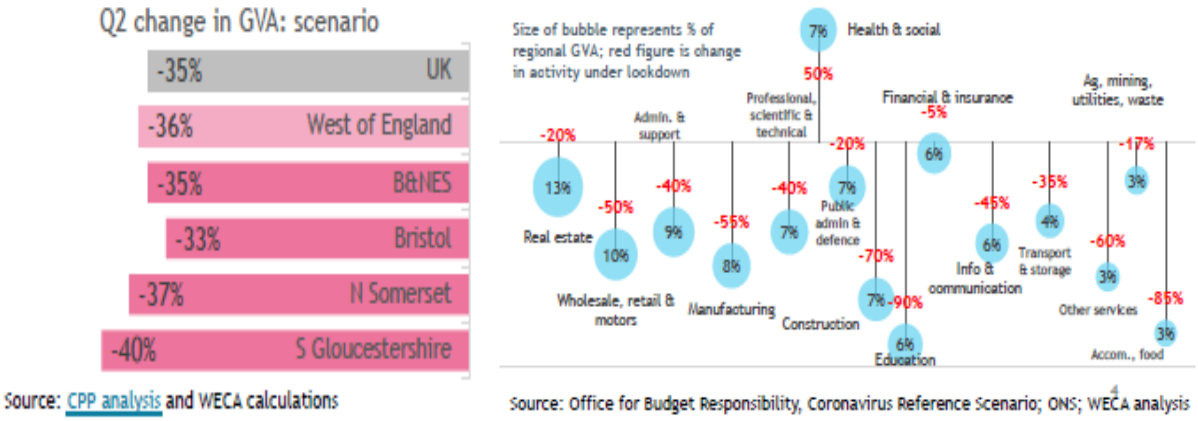
sudden reduction of both Greenhouse Gas (GHG) emissions and air pollutants, according to studies, this brief spell will have little impact on the wider climate crisis; however an economic recovery plan that incorporates an environmentally friendly future could help in the fight against global warming.

5.7. The 15th edition of Global Risks Report (2020) from the World Economic Forum describes key issues such as the economy, the environment and climate change, technology, cyber risk and public health dominate the unsettled global landscape. There is still scope for stakeholders to address these risks, but the window of opportunity is closing. Coordinated, multi-stakeholder actions are needed quickly to mitigate the worst outcomes and build resilience across communities and businesses.

Regional and Local Context

5.8. Applying the OBR's assumptions on sector impacts produces a scenario of a fall in GVA of 36% in quarter 2 in the West of England, before recovery in Q3. With different mixes of industries, the impact will vary for each UA and different sectors face different impacts, based on ability to work from home, key workers, sickness, and changes in demand.

Figure 2: Change in GVA Scenario and Sectorial Impact



5.9. Locally the Council is doing remarkable work to address the challenges brought by COVID-19. We have redirected or pooled our resources; responded to new challenges with innovative solutions to ensure the most vulnerable citizens and businesses are protected and supported as a priority.

5.10. Between March and July 2020, Bristol had seen the highest proportion of increase in people on Universal Credit (UC) amongst core cities; however the proportion of people on UC in relation to the working age population remains one of the lowest amongst core cities.

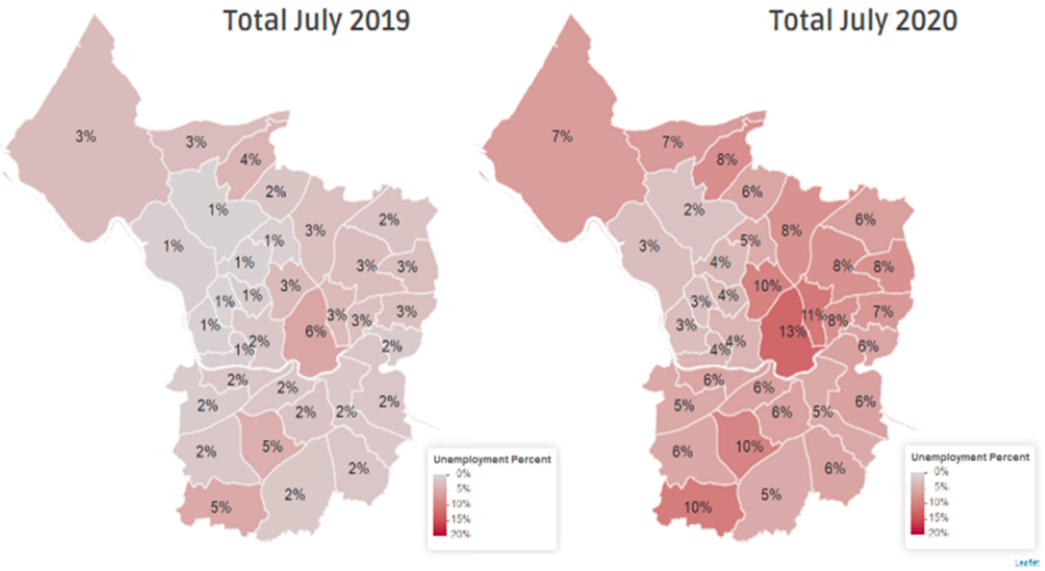
Figure 3: People on Universal Credit

	People on CU	Mar-20	Jul-20	Change	Mid- 2019	Age 16-64 on UC
Type of LA	LA Name	Number of	Number of	%	Age16-64	%

		People	People			
Core City	**Manchester**	42,120	70,931	68%	389,646	18%
Core City	**Birmingham**	91,036	141,909	56%	733,672	19%
Core City	**Newcastle**	23,628	34,683	47%	206,358	17%
Core City	**Liverpool**	31,921	55,727	75%	337,574	17%
Core City	**Nottingham**	19,371	33,605	73%	231,589	15%
Core City	**Leeds**	35,450	66,638	88%	516,054	13%
Core City	**Sheffield**	23,004	43,437	89%	384,610	11%
WoE	**North Somerset**	8,462	15,285	81%	124,292	12%
WoE	**Bath and North East Somerset**	7,584	13,217	74%	124,250	11%
WoE	**South Gloucestershire**	7,056	15,806	124%	177,914	9%
CC/ WoE	**Bristol**	**19,257**	**39,770**	**107%**	**317,249**	**13%**

5.11. Within Bristol there are also significant levels of poverty and inequality. Bristol continues to have deprivation areas that are amongst some of the most deprived in the country and these can lie adjacent to affluent areas. Whilst job losses are expected across all sectors and all skills levels, some groups are expected to be hit harder than others. These include education leavers, young people, over 50s, people with lower levels of qualification and people from disadvantaged / under-represented groups e.g. women, BAME and disabled people.

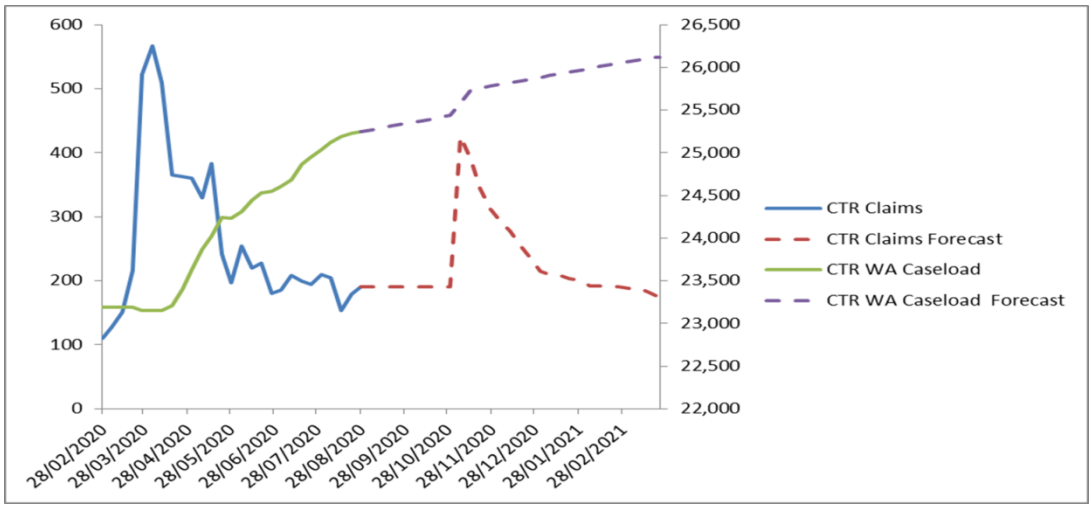
Figure 4: Unemployment benefit claimant count at ward level (% working age population)



5.12. Bristol is one of the few Local Authorities that implements a full Local Council Tax Reduction scheme (CTRS). Prior to the pandemic, Bristol had seen relatively low unemployment rate, and in recent years reductions in the numbers of working age adults' claimants to the CTRS. During the pandemic, there had been a significate increase CTRs claimants and caseload. With the current furlough coming to an end in

October and the less generous job support scheme, it is estimated that the total approved CTRS claims in 2020/21 will increase by 13% comparing to pre-pandemic levels.

Figure 5: Bristol CTRS Trend



5.13. Similarly Discretionary Housing Payment (DHP) is a local fund to assist Bristol citizens to meet their housing costs and reduce the likelihood of eviction and subsequent homelessness. Albeit capped by Housing Benefit or Universal Credit, there had been a significant increase in funds awarded since March 2020.

5.14. Partly funded by the government hardship grant, the Local Crisis Prevention Fund (LCPF) was increased to support emergency payments to applicants to assist with living expenses and household goods. LCPF is also used to support UC claimant during their application processing time, often up to 5 weeks, and any delays of the first payment. In some cases they are also referred to the foodbanks for additional support. There had been a spike of activity over the past few months and it is anticipated that a further rise in claims will coincide with the expected increase in UC claims.

5.15. The number of referrals to all 7 Foodbanks under LCPF in the city had seen over 200% increase in the month April and May 2020 comparing to the same period last year, with an average 30% increase up to August.

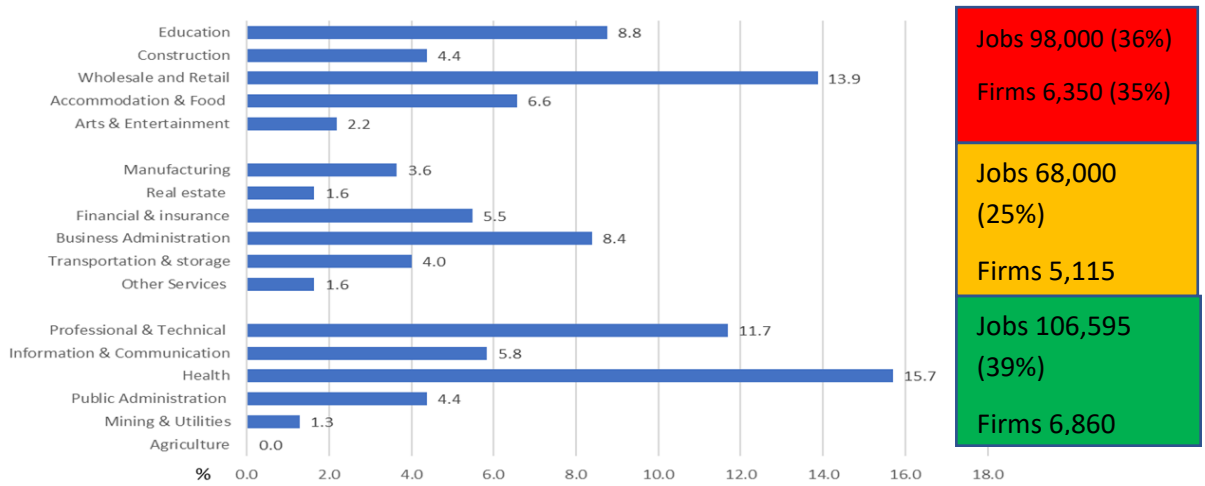
5.16. A group particularly vulnerable to the pandemic includes those who are homeless, in temporary accommodation, rough sleeping or vehicle dwellers. Homelessness has increased in recent years with rough sleeping more than doubling since 2011, disproportionate shared across urban population and cities, partly as a result of higher housing prices and private rents. At the last annual count in November 2019, Bristol had the 3rd highest number of people sleeping rough in England and Wales and the highest numbers outside of London. Manchester and Birmingham are also in the top 10 local authorities with highest numbers of people sleeping rough.

5.17. During the pandemic, Bristol has initially housed over 230 additional individuals in accommodation however a large numbers were also back on the streets during the summer months. The cost of the accommodation and support required to protect these individuals is significant. As the autumn and winter season approaches with the risk of a second outbreak, homelessness provision may present itself with a cyclical pattern where health concerns and risk of community transmission persists; there is a call for longer term housing solution in the city. The Council is working closely with the voluntary sector to ensure that residents are able to access all entitlements to welfare support and any discretionary funding available and taking a multi-agency approach to developing pathways out of crisis that tailored to specific communities. It will be vitally important to ensure that families do not extend their debt burden due to the crisis, given clear implications for individuals' mental health and risks of homelessness.

5.18. Overall there had also been considerable and growing demand for housing in Bristol, with limited choice and supplies. This is resulting in increased rents and house prices outstrip the national average over recent years. Many more homes are needed to meet the demand. In September 2020, Government announced a new Affordable Homes Programme 2021 to 2026 (AHP) to support the development of affordable housing for rent or sale. Locally for Bristol the Council's own affordable housing policy also provides additional top-up grant for local schemes.

5.19. Form the Business and Investment perspective, the pandemic has affected all parts of the local economy, with businesses facing a loss of trade, temporary closure, displacement of staff, rising levels of debt and deep uncertainty about the future. Moreover, the impact of the crisis has been uneven across sectors, with customer-facing businesses in retail, the visitor economy, culture and education experiencing the greatest shock. As shown in the Figure below: there are severe implications in the short term, until the need for social distancing is removed, and for many businesses longer term challenges rebuild their customer base and repay debts accumulated during the lockdown period.

Figure 6: Bristol COVID Impact Risk by Sector



Local Economic Recovery Plan

5.20. In June the Council published a renewed economic statement of intent that sets out the city's roadmap to recovery form the pandemic: addressing the emergency needs of our economy and setting out the principles of Build Back Better. It highlights key areas of risk for Bristol's businesses, residents and Voluntary, Community and Social Enterprise (VCSE) sector, to protect the long-term viability of the economy. It recognises the priority to gear the actions toward the communities and places, Black, Asian, and minority ethnic residents, young people, adults and businesses that will be disproportionately affected by the crisis and the recession that will inevitably follow. The actions contributed to the Council's wider commitments to climate change, equality of access and opportunity and to the delivery of the sustainable development goals towards a healthy, open, productive, equal and sustainable City:

- Seek to reduce poverty and inequality;
- Increase the city's resilience and environmental sustainability; and
- Enhance the economic and social wellbeing of every community.

5.21. For jobs and skills Build Back Better means improving the quality of work through the City's commitment to a living wage, reducing the number of workers earning below the living wage, reducing the proportion of residents reliant on insecure work, and increased investment in workplace training meanwhile addressing the prevailing structural inequalities.

5.22. Similar to effects on the labour market, we are facing a transformative moment for businesses. The recovery process is an opportunity to protect those areas of the economy vital to the future development of the City, focusing on accelerating investment in infrastructure and skills that contribute to productivity and working with businesses to improve the quality of work with a targeted approach. Build Back Better is about a more inclusive, sustainable and equitable economy.

5.23. A central part of Build Back Better is to also to secure the maximum benefits from a transition to a green economy. With accelerated investment in energy efficiency initiatives, environmental improvements, low emission vehicles and growing global markets for renewable energy and waste reduction, green skills and employment an important foundation for skilled jobs. Working with employers and shaping public procurement provide an important opportunity to both build momentum for recovery and create the jobs for a sustainable future.

6. Five Year Financial Outlook

The financial outlook provides the indicative funding envelope that facilitates the development of service plans and budgets that will best allocate resources in a manner that will enable effective mitigations of risks and deliver the Council's key objectives and ensure our financial resilience.

6.1. The Budget approved at full Council in February 2020 outlined a 5 year balanced position with a small surplus anticipated in 2025/26. The net budget over the medium term is inclusive of a tail of £12.5m of savings and efficiencies previously agreed (2018/19) and impacting 2020/21 to 2022/23 financial years.

6.2. The table below summarises the indicative funding envelope and adjustments made prior to the impact of COVID-19 over the MTFP period.

20/21 £m	Pre-COVID Funding Position	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m
365.165	Baseline B/F	377.680	385.190	393.150	401.620	410.240
4.765	Pay Award & Increments	4.973	5.181	5.472	5.472	5.472
4.599	Net Inflation	4.754	4.951	3.785	3.785	3.784
7.500	Capital Financing	0.027	(0.588)	0.214	(0.636)	-
(8.652)	Savings Pipeline	(3.100)	(0.724)	-	-	-
4.303	Other Baseline Adjustments	0.856	(0.850)	(1.000)	-	-
377.680	**Pre-COVID Baseline**	**385.190**	**393.160**	**401.621**	**410.241**	**419.496**
18.028	Other One-off Adjustments	3.490	1.400			
395.708	**Total Pre-COVID Funding Envelope**	**388.680**	**394.560**	**401.621**	**410.241**	**419.496**
226.055	Council Tax	230.934	236.214	241.948	247.768	253.667
131.644	Business Rates (NNDR)	134.280	136.955	139.692	142.492	146.474
5.067	Business Rates Levy	-	-	-	-	-
6.387	New Homes Bonus	3.485	1.410	-	-	-
28.191	Social Care Grant	19.981	19.981	19.981	19.981	19.981
(1.636)	Collection Fund Surplus/(Deficit)	-	-	-	-	-
395.708	**Total Pre COVID Funding**	**388.680**	**394.560**	**401.621**	**410.241**	**420.122**
-	**Pre-COVID Budget Surplus/(Deficit)**	**-**	**-**	**-**	**-**	**0.626**

6.3. The following had been assumed in arriving at the pre-COVID forward looking 5-year financial and funding envelope:

- Council Tax increase of 1.99% p.a. and no further Social Care Precept

- 100% Business Rates retention pilot ends in 2020/21
- Social Care Grant (£1bn SR 2019 one-off) 2020/21 only
- New Homes Bonus - legacy payments only
- Pay inflation of 2.7% p.a.
- Inflation of average 2% on relevant contracts
- Prior year savings and £12.5m tail of savings programme 100% delivered

6.4. Within this baseline position there remained significant uncertainty in relation to the quantum of funding to be allocated to the sector in the 2020 spending review and future local government funding reforms such as fair funding and business rates. The Council sought to de-risk the budget by only allocating one off or uncertain funding to one off initiatives and pressures

Government Funding Outlook

6.5. The last Comprehensive Spending Review was set in 2015 and given a one-year extension in 2019. The government was planning for a multi-year Spending Review commencing in July 2020 and would be completed in time to inform Departmental funding allocations from April 2021. However on 24 March it was announced that this would be delayed in order to enable the government to focus on responding to the public health and economic emergency. A subsequent announcement was received in September 2020 that there will be no Budget Announcement before the end of the 2020 to allow the government to focus on the new emerging issues and an alternative plan to continue protecting jobs through the winter and to this effect the 'Winter Economy Plan' was presented.

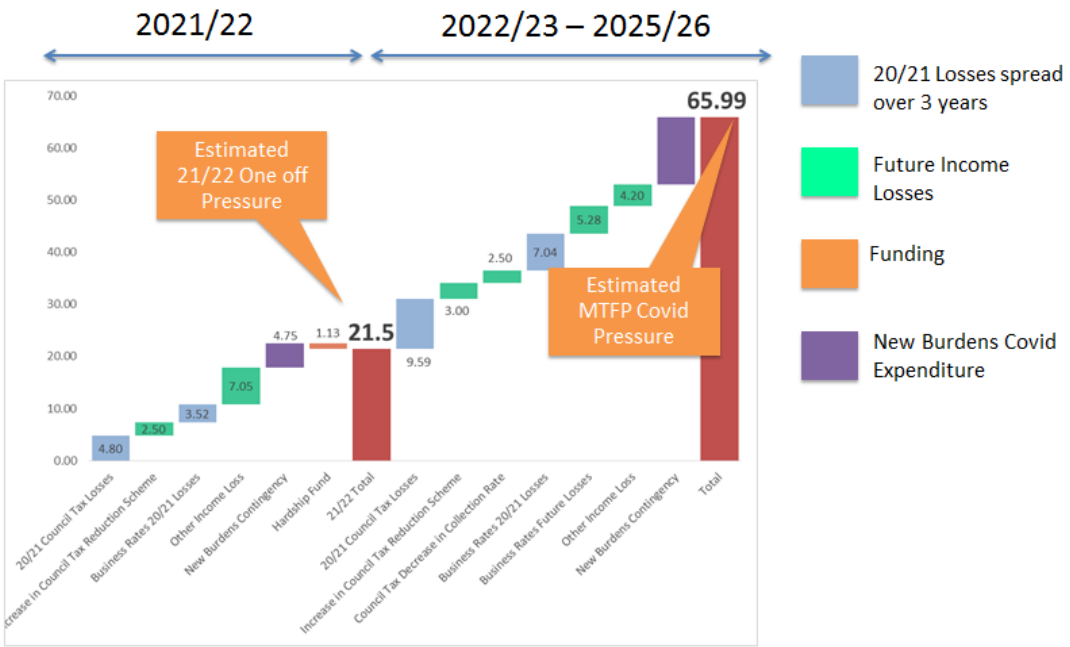
6.6. A strategic plan is unlikely to be announced by government, making another one-year extension a certainty and severely curtailing the sector's ability to plan over the medium-term.

6.7. In addition to the above, local government was planning for the final consultation on the Fair Funding review in 2020, with implementation for the next financial year beginning in April 2021. This, alongside the revised model for the devolution of business rates and the planned business rates revaluation in 2021, has also suffered from further delays.

COVID Impact

6.8. It is anticipated that the impact of COVID from 2021/22 onward will peak at £65.99m cumulatively over the next 4 years and fully recover by end of 2024/25.

Figure 7: COVID Financial Impact



Council Tax

6.9. The population growth in Bristol has slowed down since it peaked in 2015 (1.5%). Between mid-2018 and mid-2019, there had been very little growth reported (463,377, mid-2019). Over the next 5 years, Bristol is projected to reach a population size of 484,965 (c.4.6% over 5 years). This forecast drives additional housing and therefore increases in the Council Tax base. Using a rolling three year average puts total dwelling growth at around 0.85% which has been used as a basis of future growth in the financial outlook.

6.10. Council Tax income losses is the largest single income loss due to COVID-19 which is estimated to be £14.4m in 2020/21, mainly relates to the increase CTRS numbers for working age adults (13% increase), reduction in collection rate (5% decrease) a and delays in housing growth (476 new dwellings delayed).

6.11. Ordinarily Councils are liable to repay the Collection fund deficits (council tax and business rates) in full the following financial year (in this case 2021/22). In July 2020 Government announced a scheme to allow the collection fund deficits to be spread and repaid over 3 years instead of one. In addition, Government also conveyed intent to support Councils and reimburse a proportion of the carried forward deficit, albeit no details yet announced (see later section regarding assumptions made under COIVD mitigation scenarios). It is also anticipated that there will be a gradual recovery over the medium term for the ongoing shortfall.

6.12. Bristol also hosts two universities, one of which falls within the Bristol City boundary, combined they employee over 9,000 staff, with student number in excess of 56,000. Due to tax exemptions available, the growth in university capacity and student numbers over recent years had significant impact on Council Tax receipts and the provision of Council's services. However, according to research carried out by the

Russell Group on its 24 member universities, a large student population plays a key role in the city's economy and in making the city such a vibrant and creative place. The impact of COVID-19 on the student economy is difficult to quantify, one of the biggest concerns for the sector at large is the percentage of international students that make up the domestic higher education markets and the trend going forward. The medium to long term impact of COVID-19 to overseas student numbers and the changes in local housing supply are yet to be seen.

Retained Business Rates Funding

6.13. Since 2017-18 Bristol has been piloting 100% retention of business rates and it was due to end in 2020/21 with changes in business rates retention and the rollout of a fair funding review by Government. Under the reforms, the business rates system was due to be "reset" and funds retained by councils in areas with high business rates growth redistributed more in line with needs with a new baseline set for funding allocation based on up-to-date needs and resources. Amid the Pandemic, the Government announce further delay to the 2021 fair funding review.

6.14. There is much uncertainty in the detail of how the rates retention system will work beyond the current pilot period. In particular, it is unclear what additional responsibilities will come with funding and how the appeals process will work.

6.15. During the pandemic we have seen a significant increase in rates reliefs and application to small business support grant. Bristol received £74m rates relief grant from the Government at the beginning of the pandemic, however the actual numbers is forecast to be much larger at £90m+. Assuming all rates relief and tax-breaks for businesses are funded by Central Government we estimate a reduction of £10.6m of business rate income as a result of unavoidable business insolvencies and reduction on debt collection rate within the Bristol area in 2020/21.

6.16. Note that under the business rates retention scheme, the Government currently operates and levy and the safety net system where BR income is guaranteed at the safety net level for local authorities. However Bristol's safety net entitlements is calculated to be £116.2m for 2020/21, this would meant that the safety net mechanism will not be triggered before income losses reach £20.5m.

6.17. Similar to Council' tax, business rate 2020/21 deficit is spread over the next 3 years and a tapered future year recovery is assumed in the MTFP. It is likely that the 100% rates retention could continue for another year in 2021/22, if materialises it will be used as one-off mitigation to the above mentioned £65.99m budget deficit due to the pandemic within the COVID mitigation scenarios (see later sections).

Income Fees and Charges

6.18. The pandemic had a significant impact on the Council's Fees and Charges income streams. The forecast loss of service income such as Parking, parks, museum, events, commercial property rental income amounted to £28.5m in 2020/21, and it is expected that full recovery will take around 3 years.

6.19. Whilst Government had supported a proportion of fees and charges income in 2020/21 (75% of 95% of income loss on qualifying streams). It is unclear whether the level of support will continue in 2021/22. In addition, certain commercial income streams were not supported. It is expected that commercial property rental income will also experience up to 25% reduction base on ONS statistics on national business insolvency risk and intelligence from the Council's own property agents who estimates these losses across a national mixed commercial portfolio.

New Burden and Demand Contingencies

6.20. Within our planning assumption a level of COVID new burden cost pressures had been estimated and included under the revised financial outlook. This takes into consideration the cost associated with new and on-going COVID cost pressures such as home to school transport, PPE, social distancing, Social Care and future demographic changes.

Revised Outlook

6.21. The following table shows the cumulative general fund budget deficit across 2020/21 and the period of the medium-term financial plan when compared to the original approved budget envelope.

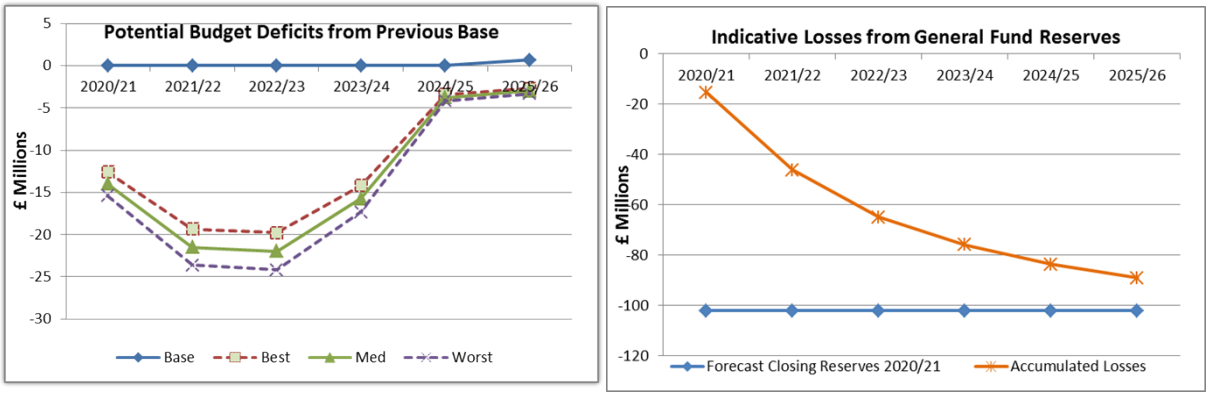
20/21 £m	Pre-COVID Funding Position	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	Total £m
-	**Pre-COVID Budget Surplus/(Deficit)**	**-**	**-**	**-**	**-**	**0.626**	**0.626**
	COVID Impact						
-	Council Tax 2020/21 Losses (Budgetary Impact)	(4.797)	(4.797)	(4.797)	-	-	(14.392)
-	Council Tax Future Year Deficit Tapered Recovery	(2.500)	(4.250)	(1.000)	(0.250)	-	(8.000)
-	Business Rates 2020/21 Losses	(3.522)	(3.522)	(3.522)	-	-	(10.566)
-	Business Rates Future Losses Tapered Recovery		(3.170)	(1.585)	(0.528)	-	(5.283)
(28.505)	Other Income Loss Tapered Recovery	(7.047)	(2.350)	(1.853)	-		(11.250)
(35.872)	COVID Response and New burden	(4.750)	(3.875)	(3.000)	(3.000)	(3.000)	(17.625)
50.308	Government Funding	1.130					1.130
(14.069)	**Subtotal - COVID Impact**	**(21.486)**	**(21.964)**	**(15.757)**	**(3.778)**	**(3.000)**	**(65.986)**
(14.069)	**Updated Budget Surplus/(Deficit)**	**(21.486)**	**(21.964)**	**(15.757)**	**(3.778)**	**(2.374)**	**(65.360)**

6.22. In arriving at this position a tapered recovery from the COVID impact over medium term was assumed particularly in relation to income and collection fund. it is assumed that the collection fund deficit from 2020/21 due to COVID will be carried forward and evenly spread over 2021/22, 2022/23 and 2023/24 according to Government policy intent.

6.23. The Council is forecasted to have circa £102m of general fund reserves. These are predominantly one off earmarked funds for specific, projects and risk to which the timing of utilisation may not always be certain.

6.24. We recognise the reliance of reserves is unsustainable for core budgeted expenditures but they can be temporarily utilised in the short term for one off shortfalls. The figure below demonstrates that without action or significant increases in government funding, the reserves will be virtually depleted albeit sufficient to support any in year pressures / risks. Should the Council initially use some of its earmarked reserves to meet the costs of Covid-19 in 2020/21 and beyond action would need to be taken in future years to rebuild many of these reserves.

Figure 8: Worst Case Scenario r and General Fund Reserve Resilience



Government Funding Assumptions

6.25. The baseline position illustrated above had also been adjusted to reflect the latest government funding assumptions to illustrate a realistic indication of the possible available resources and remaining budget gap:

- Assumed Government will fund 30% of the carried forward collection fund deficit from 2020/21, the remaining 70% tapered over 3 years
- Assumed 100% Business Rates retention pilot will continue for a further year ending 2021/22
- The Social Care Grant £8.2m (£1bn under SR 19) previously assumed as an one-off will continue

6.26. The table below illustrate the revised Baseline (base case) and funding gap after adjusting for potential government funding which presents a remaining budget gap of £19.2m over the next 5 year MTFP period.

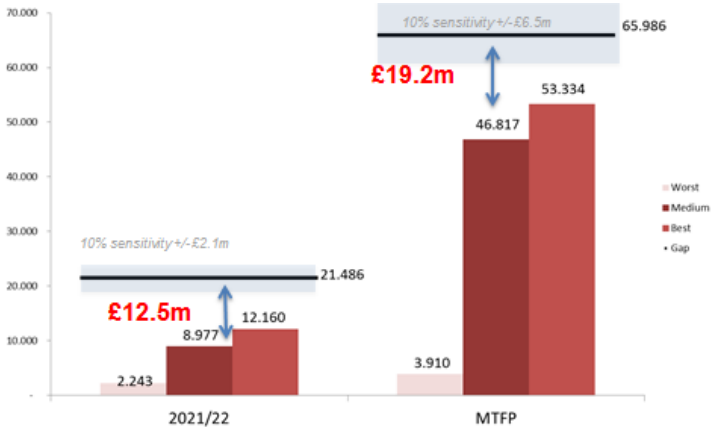
One-off Pressures and Mitigation Approach	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	Total
Top up of General Reserve	**6.800**	-	-	-	-	**6.800**
COVID and one-off pressure	**21.486**	**21.964**	**15.757**	**3.778**	**3.000**	**65.986**
Total COVID and One-off Pressures	**28.286**	**21.964**	**15.757**	**3.778**	**3.000**	**72.786**
Government Support Funding	(2.500)	(2.500)	(2.500)	-	-	(7.500)
100% Business Rates Pilot	(5.067)	-	-	-	-	(5.067)
Social Care Grant first call to top up GR	(6.800)	-	-	-	-	(6.800)
Social Care Grant	(1.410)	(8.210)	(8.210)	(8.210)	(8.210)	(34.250)
Residual gap	**12.509**	**11.254**	**5.047**	**(4.432)**	**(5.210)**	**19.169**

Sensitivities and Scenario testing

6.27. In addition to the base-case illustrated above, a best and a worst case scenario have also been modelled to stress test the assumptions both from funding and cost perspectives which lead to different internal mitigation requirements.

6.28. External Funding scenarios: It is estimate that the one-off pressure and internal mitigation required will be between £12.7m and £62.1m.

Figure 9: COIVD Mitigation Sensitivities



	Worst	Medium (Base)	Best
Government collection fund support	10% extrapolated over 3 years (£2.5m)	30% extrapolated over 3 years (£7.5m)	50% extrapolated over 3 years (£12.5m)
100% Business Rates Pilot	0	Continues for 21/22 (£5m)	Continues for 21/21 (£5m)
Adult Social Care Grant	Continues to support new Covid burdens for one year (£1.41m) *Residual grant following top off of GF reserve*	Continues **ongoing** to support new Covid burdens (£1.41m) *Residual grant following top off of GF reserve*	Continues **ongoing** to support new Covid burdens (£1.41m) *Residual grant following top off of GF reserve*
New Homes Bonus	Legacy payments as previously assumed	Legacy payments as previously assumed	Scheme continues with full legacy payments (£1.5m)

6.29. Cost Driver assumptions: The table below also illustrates the impact of changes on standard planning assumptions with in the MTFP for any given year:

	£m
Income	
Change in Council Tax Collection Rates by 1%	1.8
Change in Business Rates Collection by 1%	2.3
Change in Council Tax Growth by 1%	2.4
Changes in Government Funding Settlement by 5%	6.0
Expenditure	
Change in Pay Award by 1%	1.8
Change in General Contract Inflation by 1%	2.6
In Year Pressure 2020/21 c/fwd (50% of P5 reporting)	3.6
	20.5

6.30. It is worth taking these risks and scenarios into account when setting the budget to ensure that sufficient headroom is available for financial resilience in response to future uncertainties.

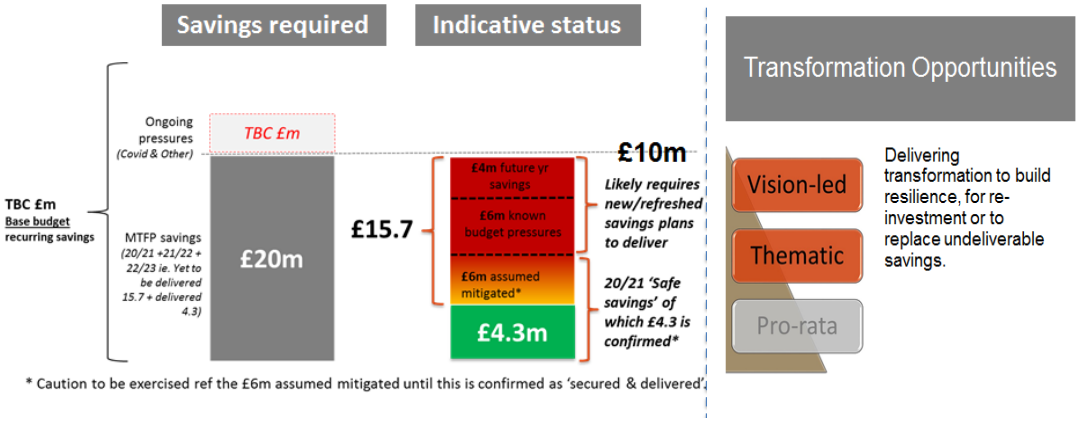
Financial Risk and Transformative Efficiencies

General Fund

6.31. At Period 5 2020/21, the Council was forecasting a £75.8m overspend against the approved General Fund budget (£395.7m), of which £7.1m was categorised to be not directly attributed to the impact of COVID-19. This risk to overspend mainly relates to undelivered savings mainly relating to e.g. Adult Social Care, Facility management and income generating initiatives. Mitigations will continue to be explored by the directorate, however recognition should be given that remaining shortfalls that cannot be fully mitigated in this financial year may require supplementary estimates with corresponding drawn-down from the general reserve, which will need to be replenished from future year funding.

6.32. The current gap in savings programme delivery is largely attributed to adult and children social care, commercialisation and facilities management. This presents a risk for future years which will need to be addressed in the 2021/22 budget setting process.

Figure 10: Illustration of Planned Transformation Delivery



6.33. Both risk to overspending and non-delivery of saving requires post COVID transformation, considering delivery models aligned to organisational priorities and taking early opportunity where possible to create more resilience for uncertainty ahead / economic shocks.

Ring fenced funding

Public Health

6.34. Last year, Spending Review 2019 included a 'real-terms increase to the ring fenced budget with 2020/21 grant level at £33.1m and Public Health ring fenced earmarked reserve of £3.8m.

6.35. Public Health is more than a health service; it is the social determinants, shaping education, housing, transport, and income. It makes a significant contribution in shaping our health than the services that pick up the pieces when ill-health strikes. The totality of the resources available to promote the health and wellbeing of the population is much greater than this ring fenced Public Health grant.

6.36. Public Health has been and continues to be at the centre of the Council's COVID-19 response efforts, working with our partners and government to maximise health gain for the city's population and reprioritising the grant to respond to the crisis. It is anticipated that Public Health spend will be contained within the £37.5m approved budget (include partnership funding in additional to the ring-fenced grant) and a planned £0.5m drawdown from the Public health reserve.

6.37. In addition to the above the Government allocated £3.0m funding to the Council in dealing with potential local out-breaks and help to transition to reopening the economy. The £3.0m track & trace local outbreak funding is being held in an earmarked reserve to be utilised over the medium term, in line with the local Outbreak Management Plan.

6.38. There has been no further announcement regarding future funding from the government and our budget assumptions are that this fund will remain ring fenced for 2021/22 and will not be subject to adverse grant variations.

Dedicated Schools Grant (DSG)

High Needs funding

6.39. Bristol is a major city, surrounded by smaller towns and rural areas, and is home to two major children's hospitals. As a consequence our demographic of children with complex needs is disproportionally high relative to population. Pressure on the High Needs Funding continues to rise, due to significant increases in demand for SEND services and school-based support. In 2019, 15.4% of Bristol school age pupils have been receiving SEN support which is higher than the national average whilst the city also has a higher percentage of children and young people with Education, Health and Care Plans (EHCPs) than our statistical neighbours (0.94%).

6.40. We are concerned the changes to High Needs funding will reduce council and school flexibility to make additional funding available where there are rising demand pressures for Special Educational Needs (SEND) support. We recognise the proposed increase in DSG High Needs funding in 2021/22, however this does not build in growth or address the issue of legacy deficits, which for Bristol is currently forecast to be £8m by 2020/21. Similar to the approach adopted by government which has enabled NHS Trusts to write off debt, the long-running deficit in SEND funding needs resolution. The year on year growth due to increasing complexity and support required for children with educational needs and disabilities is an issue affecting local authorities across the country. Bristol and other local authorities need the resources to fund the demand created by the SEND reforms, as well as greater flexibility to move funds across the Dedicated Schools Grant blocks to top up areas of pressures, particularly in relation to High Needs.

School funding

6.41. Schools have incurred exceptional costs associated with coronavirus (COVID-19) for the period from March to July 2020 and for Schools that are already in debt the position is getting worse. The government's coronavirus schools fund, which was introduced to cover the exceptional costs associated with the pandemic, closed on 21 July.

6.42. Schools have incurred further costs in ensuring schools are "COVID-19 secure", the provision of PPE, additional cleaning regimes, signage and in supporting changes to the school day. The burden of having to invest in more IT to prepare for remote learning and costs such as hiring more teachers for smaller classes. These are not one-off costs but will be additional expenditure that schools will need to continue to find from their budgets while Covid-19 remains in circulation.

6.43. Schools have been eligible to claim for costs incurred between March and July for increases associated with keeping schools open over the Easter and summer half term holidays and providing free school meals for eligible children who were not in school. A second window needs to be open for the autumn to enable all associated costs to be recovered and this should ideally be expanded to State-funded mainstream nurseries that were not previously eligible for this support.

Early Years

6.44. The financial challenges facing early years reflect not just the pandemic, but also the pre-existing weakness in the funding model. Bristol has 57 maintained early year's providers (12 maintained nursery schools, 44 nursery classes in schools and academies and 1 governor-led nursery), 130 non-maintained providers and 353 independent Childminders. Since the introduction of the EY National Funding Formula (NFF) the whole sector has been subject to static government funding for a 4 year period whilst facing increasing costs, including business rates and staffing costs.

6.45. Those settings that are required to have more highly qualified staff or those from more deprived areas are likely to have run at a significant deficit even before the pandemic. The Maintained Nursery Schools Supplement has reduced year on year and has not been reviewed for 4 years. 83% (11) of Bristol's 12 maintained nursery schools were running a significant deficit at the end of March 2020 and all 12 nursery schools were running a combined deficit of £2.3m. Projections for March 2021 indicate a potential increase in this deficit of a further £1m. Funding for this financial year is partly based on January 2020 pupil numbers. There is a high risk that if take up remains low due to the pandemic there will be increased pressure on the whole Early Years childcare sector to their long term financial future.

6.46. Trying to balance families' needs for childcare with COVID-19 and the financial impact of all this will remain a challenge for early years' providers for some time. The short and medium-term financial pressures could lead more providers needing to raise private fees, adjust their business models to reduce costs, or exit the market altogether.

6.47. Increasing the hourly rate of the EYNFF could reduce some of the pressures, enabling providers to support the statutory duty of LA's to enable all children to access their free early education entitlement, this will also reduce the risk of providers increasing their private fees for families. The solution would be to increase the hourly rate paid for free hours to reduce the pressures facing providers would help reduce the pressures of provider to secure privately funded hours in areas of deprivation.

DSG Government Funding Proposal

6.48. Recent funding announced for schools indicates that the overall DSG will increase by circa 3.6% in 2021/22. The provisional Schools Block allocation for Bristol has been published at £398.3m, with actual allocations expected to be confirmed in December 2020.

6.49. Schools Block – indicative increase of 2.6% (£7m) to £291.7m. Within the increase the government have mandated the following: Increase in the NFF minimum per pupil funding. Primary increase from £3,750 to £4,180, Secondary Key Stage 3 increase from £4,800 to £5,215, and Key stage 4 increase from £5,300 to £5,715 and the Minimum Funding Guarantee for 2021/22 must be set at between +0.5% (20/21) and +2% for schools.

6.50. High needs funding is to increase by £730m nationally for 2021/22, with each local authority receiving an increase of at least 8% per head of population. The provisional High Needs Block allocation for Bristol has been published at £66.9m (a £6.1m increase from 2020/21 at 8.4%).

6.51. No detail have been provided in relation to a provisional allocation for Early years and given the challenges outlined in the section above the Council would recommend representation is made to government for sufficient Covid response funding support be provided and publicly funded childcare (through the increase rate for free entitlement for children aged 2, 3 and 4) is prioritised. We also request a review of the EYNFF and confirmation of the long term funding for maintained nursery schools.

6.52. The provisional Schools Block allocation for Bristol is outlined in the table below and it is important to note that the provisional figures provided Ignores any changes in pupil numbers and characteristics ad reflects the indicative allocations before any movements between blocks.

DSG Blocks	Purpose	2020/21 DSG	Indicative 2021/22 DSG	Increase/-decrease	Increase/ (decrease)
		£m	£m	%	£m
Schools block	For distribution through the mainstream formula for maintained schools and academies and for growing schools	284.2	291.7	2.6%	7.5
Central Services Block	For Local Authority core functions, admissions and historic commitments	2.7	2.6	-3.7%	(0.1)
High Needs Block	Funding for pupils with special educational needs in mainstream, special and out-borough schools, for pupils in alternative provision and local authority or commissioned services for high needs pupils.	61.7	66.9	8.4%	5.2
Sub Total		**348.6**	**361.2**	**3.6%**	**12.6**
Early Years	Funding for distribution to Early Years settings for 2, 3 and 4 year old early years provision, with some provision for central oversight and co-ordination.	37.1	37.1 (Assume no change)	n/a	n/a
Total Funding Ring Fenced		**385.7**	**398.3**	**tbc**	**tbc**

Housing Revenue Account (HRA)

6.53. HRA is a ring-fenced account (with £121.4m gross budget in 2020/21) that covers all activities of the Council as a landlord with circa 28,000 housing stock (rented and leasehold). The Council has a duty to maintain a sustainable 30 year business plan,

which takes into account both the capital investment needs of its stock and the revenue costs of managing and maintaining it. The business plan is currently being developed to reflect the long term challenges and opportunities, for the HRA service to maximise the use of its financial resources, in achieving the desired outcomes. This plan will be brought to December Cabinet for approval.

6.54. The longer term perspective is crucial to ensure that the HRA can continue with the ambitious new build programme and make sure that the primary assets, the housing stock, are fit for purpose and there is sufficient financial capacity to carry out essential repairs and improvements. The HRA has an aging stock that requires significant investment to meet modern standards and tenant expectations. The Housing Investment Plan outlines the expenditure required to maintain and invest in existing homes, whilst meeting Bristol's commitment to become carbon neutral by 2030 and respond to changing regulations relating to building safety.

6.55. Bristol has ambitious plans to deliver 1200 new homes through the HRA, between 2020/21 to 2024/25, through a mixture of new development and acquisitions. These homes will be comprised of both social rent and low cost home ownership. There is also an ongoing need to increase the provision of new affordable housing, to alleviate housing demand and to address rising levels of homelessness and rough sleeping in the city.

Capital Financing

6.56. The Capital Financing fund is proposed to be reduced to reflect, changes in interest rates, restructuring financing options for capital investment, and significant slippage in the capital programme partly due to COVID-19, to create greater liquidity and release of funds.

6.57. The delays of current in-flight projects as construction may have been paused temporarily or timescales extended will also naturally reduce the borrowing that was planned for 2020/21 and 2021/22. Bank of England also made an immediate cut in interest rate from 0.75% to 0.1%, so any borrowing that is required is expected to be at a more favourable rate. Taking these measures and opportunities to optimise liquidity, it may be possible to restructure capital financing and release any rephrased budged to contribute towards addressing the funding gap.

6.58. Our approach to Capital investment and financing is outlined in full in our Capital Strategy. Our ambitious capital programme of investment has a large impact on the Council's annual revenue budget, creating long term costs. These 2 areas must be simultaneously reviewed and implications clear in decision making.

7. Budget Strategy

7.1. This MTFP focuses on the Council's financial sustainability, recovery from COVID-19 and its resilience in dealing with future shocks.

7.2. Local Councils have shown how important they are in dealing with COVID-19 and delivery critical services. Given the outlook for the medium term and the likely increase costs and further income losses, we need to continue to lobby central government to deliver on the commitments made and provide adequate funding to mitigate losses for General Fund and Ring Fenced services including the DSG and support the sector and the local economy.

7.3. We will continue to work with internally and externally with our partners regionally and nationally to refine forecast, assumptions, gather evidence and where appropriate jointly commission to achieve scale in our response and drive value.

7.4. The creation of a COVID Funding Reserve to retain transparency of all COVID related government funding and the approved deployment over the medium term.

7.5. The recovery from this public health crisis also presents the Council with an opportunity to solve some of the City's most intractable problems – from rough sleeping to climate change as the world has changed, and the Council can look at closely at how we work and the services it provide, what will stop, start, continue or re-scope moving forward and what are the most important to local residents, businesses and communities.

7.6. Maintaining an appropriate level of liquidity in the council's cash flow to ensure sufficiency of working capital over the medium term and review corporate financing approaches and assumptions to identify opportunities to restructure debt and release funds.

7.7. We will undertake a detailed review of the scope and timing of all earmarked reserves exploring opportunities for short term release with the view that where the funds are still required they will be subsequently replenished.

7.8. There are many different scenarios for the bridging the gap and the table below provides an illustration only of a mitigation approach modelled on the base case scenario:

One-off Pressures and Mitigation Approach	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	Total
Residual gap	**12.509**	**11.254**	**5.047**	**(4.432)**	**(5.210)**	**19.169**
Business Rates reserve	(2.465)	(2.156)	-	-	-	(4.621)
Capital Financing Slippage	(3.000)	-	-	-	-	(3.000)
Resilience Reserves	(1.143)	-	-	-	-	(1.143)
Illustrative Redirection of other earmarked reserves	(5.901)	(9.098)	(5.047)	-	-	(20.047)
Re-phasing / pay-back of reserves	-	-	-	4.432	5.210	9.642
Total Residual Pressure	**-**	**-**	**-**	**-**	**-**	**-**

Timetable

7.9. The figure below summaries the timeline for the MTFP and 2020/21 Budget setting.

Figure 11: Financial Planning Timeline

MTFP and Capital Strategy		Start Date	End Date
Budget Scrutiny T&F Group #1	Meeting	10-Sep-20	10-Sep-20
Cabinet Board	Meeting	15-Sep-20	15-Sep-20
Budget Scrutiny T&F Group #2	Meeting	22-Sep-20	22-Sep-20
Publication for Cabinet (MTFP and CS)	Deadline	28-Sep-20	28-Sep-20
Budget Scrutiny T&F Group #3	Meeting	02-Oct-20	02-Oct-20
Cabinet (MTFP and CS)	Milestone	06-Oct-20	06-Oct-20
Full Council	Milestone	10-Nov-20	10-Nov-20
Budget 2021/22			
Budget Scrutiny T&F Group	8 weeks	12-Oct-20	07-Dec-20
Local Government Finance Settlement (date tbc)	Announcement	Dec	Dec
Publication for Cabinet (Budget)	Deadline	11-Jan-21	11-Jan-21
Cabinet (Budget)	Milestone	19-Jan-20	19-Jan-20
Full Council	Milestone	23-Feb-21	23-Feb-21

8. Reserves

A key strategy of managing the Medium Term Financial outlook is making provision for emerging financial risks. These are risks which are uncertain in their predictability and/or their impact.

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

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

Reserves can be held for three main purposes:

- A contingency to cushion the impact of unexpected events or emergencies (an example of this is the financial impact of COVID-19 pandemic)
- Support for one-off and limited revenue spending, to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- A means of building up funds, to meet identified spending commitments, known or predicted liabilities.

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

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

8.3. It is important to note that whilst balancing the annual budget by drawing on reserves as a result of emergencies and unforeseen shocks (such as the impact of COVID) is a legitimate option, it is not prudent for reserves to be deployed to finance recurrent and on-going expenditure. CIPFA has commented that local authorities should be particularly wary about using one-off reserves to deal with shortfalls in current funding particularly in a climate of such financial uncertainty.

8.4. Our general reserve policy is that an unallocated general reserve will be retained at between 5%- 6% of the net revenue budget. We currently have a £20m general reserve which given the sensitivity in the scenario modelling and uncertain financial climate it is planned to be maintained at this level.

8.5. The Council has a requirement, (as reinforced in the new FM Code) to have regard to the long-term sustainability of our services and to ensure that Bristol can meet its future obligations and remains a vibrant, prosperous and safe place into future generations. The MTFP recommends a principle of redirection of funds and an acceleration of draw-down (value to be determined as part of the budget and subject to affordability) in dealing with COVID-19 financial recovery, with the view to replenish these redirected reserves from 2024/25 onwards.

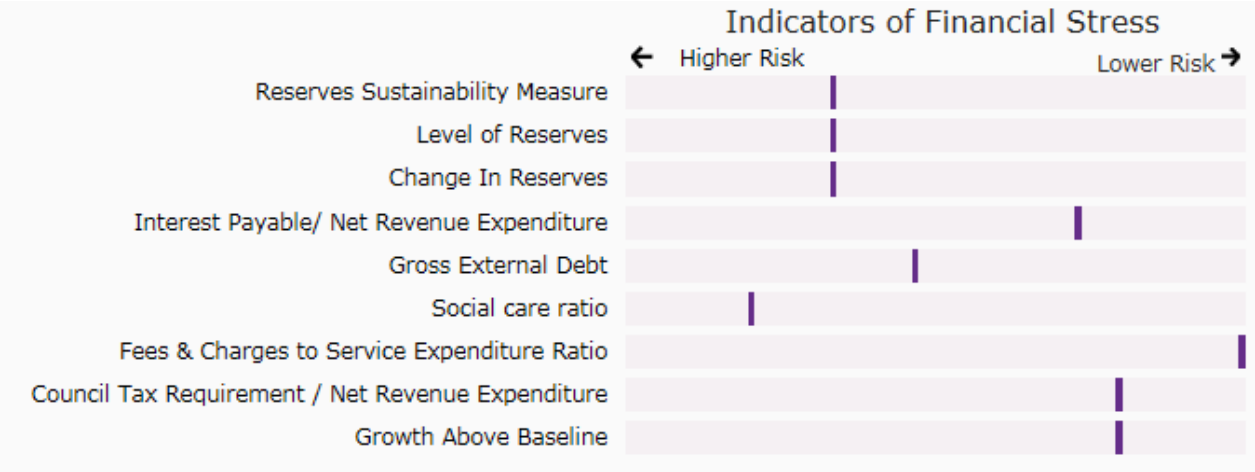
8.6. Table below summarise the Existing Reserves and availability:

Type	Opening Balance £m	Movement £m	Forecast Closing Balance 20/21 £m
Statutory/Ring-Fenced	18.521	(0.500)	18.021
Capital Investment	19.666	2.700	22.366
Business Transformation	3.131	(2.210)	0.921
Financing	9.218	(3.969)	5.249
Risk and Legal	21.822	(0.774)	21.047
Consultation reserve	0.229	-	0.229
Service	-	-	-
People	1.934	2.100	4.034
Resources	3.794	(1.400)	2.394
Growth and Regeneration	5.202	1.664	6.866
Corporate	0.880	-	0.880
Earmarked Reserves Total	84.396	(3.164)	82.006
General Reserves	17.001	2.999	20.000
Schools	7.302	-	7.302
HRA	91.132	1.003	92.135
Total	**199.830**	**1.339**	**201.943**

9. Financial Health Indicators

9.1. In determining the medium term financial strategy it is essential to ensure the Council manages its financial resilience to meet unforeseen demands on services. Below is a selection of key financial resilience indicators as determined by CIPFA. The highest area of risk to the financial resilience of the Council compared to other similar authorities is the proportion of budget spent on social care services as this is seen as a very inflexible cost which is difficult to reduce over short term and impacts on the Council's ability to respond with agility to changing demands.

Figure 12: CIPFA Published Resilience Index (2018/19 Baseline)



10.Our Financial Principles

Putting this Strategy into Practice

Our financial principles provide the guiding principles and good practice to support both the process for determination of the budget and the financial management arrangements for delivery of a balanced revenue budget position.

The capital principles have been developed to enable the Capital Programme resource to achieve the priorities within corporate strategy and will support the development and monitoring of the Capital Programme for 2020/21 and future years.

The detailed resourcing principles that underpin these elements and activities are detailed in Annex 1 and provide the tools for a consistent, transparent approach to the annual budget review.

10.1. In 2017/18 In 2017/18, we identified three overarching financial elements; spending, investment and efficiencies and adopted guiding principles and good practice to support the process for determination of the budget and the financial management arrangements for delivery of a balanced budget position:

1. Spend

Aligning spend with corporate priorities

Maintaining sustainable finances as a priority

Being resilient to future uncertainty

2. Investment

Capital Programme Prioritisation

Investment for sustainable inclusive growth

Investment to improve and maintain

Investment to save and generate income

3. Efficiency

Financial Resilience

Transforming Services

Financial Sustainability

Affordability

10.2. Since the beginning of 2020/21, the Council had been facing a set of fresh financial challenges as a result of the COVID-19 pandemic that is having a significant impact on the Council finances and had thrown a new light on the Council's ability in dealing with unexpected shocks and uncertainties. With a focus on pandemic recovery, financial sustainability and resilience are the key aspects of the Council's future strategy. To be resilient to future uncertainty we are proposing to focus on four key principles:

10.3. Recommend that during a period of national lockdown or local outbreak, the following principles be de-prioritised:

1. Spend

No additional spend unless matched by savings or income. Implement all endorsed savings and efficiencies

2. Investment

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.

3. Efficiency

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.

The Pay bill should not exceed the annually determined budget percentage - This % needs to be set and include Interim and strategic partnering resources.

11. Risk Management

11.1. Change is happening at an increasing pace and while this brings with it risks, it also offers new opportunities. We will proactively manage risks and opportunities to support the delivery of strategic objectives, improve service delivery, achieve value for money and reduce unwelcome surprises.

11.2. We are continually developing and refining our approach to risk management, in order to provide a more effective response to risks while also embedding risk management across our decision-making processes. We not only consider our own organisational risks, but also a range of broader physical, environmental and global risks that could impact the wider community.

11.3. In developing the 2021/22 budget for approval we will consider the key corporate risks that we face including COIVD-19 and Brexit, how we propose to address these risks and the adequacy of the financial provisions made.

12. Consultation and Cumulative Equalities Impact Assessment

12.1. The Council will continue to strive to deliver efficient services that provide value for money. Any proposals developed by applying these principles will be subject to relevant and proportionate internal, external and public consultation. We need to ensure that optimal choices that are being made are done on a fully informed basis.

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

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

Annex 1: MTFP Principles

Spending Principles

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

Investment Principles

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.

Efficiency Principles

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).

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 IRR of 6.00% over a 10 year period, or less e.g. 4.00% with social value opportunities.
- We will save costs and reduce carbon through smarter use of energy.

Transforming Services

- 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.

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.

Affordability

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