1. Background Context

1.1. Since the Council approved the current budget and five-year outlook in March 2022 there has been significant changes in the external context in particular the worldwide economy and the impact the invasion of Ukraine and pandemic is having on inflation.

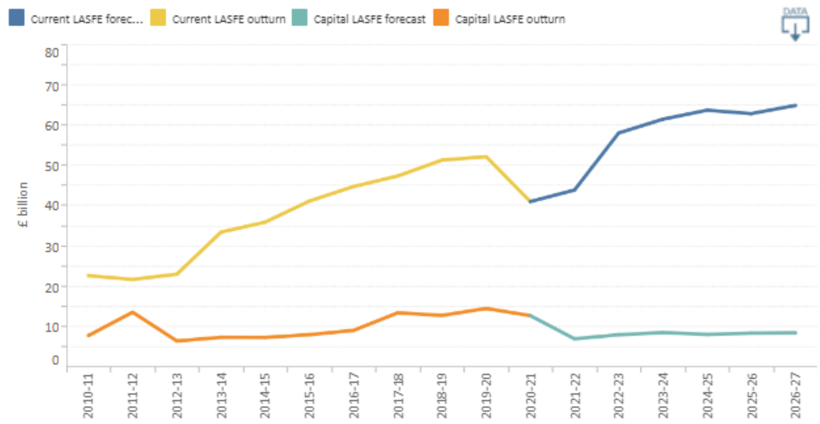
1.2. In February 2022, the Department for Levelling Up, Housing and Communities (DLUHC) approved a 3-year settlement for Local Government. This settlement frontloaded funding to Councils for 2022/23, with no additional funds been made available for 2023/24 and 2024/25. The agreed settlement was prior to any knowledge of the current inflation and cost of living crisis impacts on Local Government.

1.3. On Wednesday 23 March 2022 the Chancellors presented his Spring Statement before parliament. In line with previous intentions the Spring Statement was an update with little in the way of fiscal (spending and tax) policies. Accompanying the Spring Statement was the latest economic forecasts published by the Office of Budget Responsibility (OBR).

1.4. These forecasts show an overall increase in Government spending over the medium term driven by increased debt interest costs and increased welfare costs driven by higher inflation related uprating.

1.5. Figure 1 shows the projection of local authority spending to 2026/27. This shows small increases in Local Authority day-to-day revenue spending and a broadly cash flat capital spending over the medium term.

Figure 1: Current and capital Local Authority Self-Financed Expenditure: latest forecast



Source: HMT, OBR

Economic Contex

1.6. One of the major changes which is impacting the Council's financial outlook is the general economic context and the impact of rising inflation. The increasing inflation has a direct impact on the cost of goods and services delivered by the Council but also the cost of living crisis impacts on citizens who rely on the services provided by the Council.

1.7. To try and tackle the rising worldwide inflation central banks have increased interest rates trying to balance the desire to reduce inflation but not impact economic growth and cause recession. At the last two meetings the Bank of England voted to increase the Bank Interest Rate first to 1.0%, then again to 1.25%. This is an increase of 0.75% from when the budget was set in March 2022.

New Legislative and Policy Change

1.8. On 10 May, at the opening of Parliament as part of the Queen's speech the Government announced a wide range of proposals, relating to devolution, planning, council tax, education, energy, housing, and health. It also included measures on business rates, public procurement, and local audit;

- Levelling Up & Regeneration Bill
- Renters Reform Bill
- Social Housing Regulation Bill
- Schools Bill
- Energy Security Bill
- Transport Bill
- Draft Mental Health Act Reform Bill
- Non-Domestic Rating Bill
- Procurement Bill
- Draft Audit Reform Bill
- UK Infrastructure Bank Bill

1.9. All these pieces of legislation will have an impact on the Council which needs to be considered in terms of business planning and financial planning.

Levelling Up and Regeneration Bill

1.10. The Levelling Up and Regeneration Bill was published on 11 May 2022 and aims to drive local growth and devolve power to local leaders to regenerate their areas. The bill is wide ranging and includes measures regarding reforms of the planning system and new powers for local authorities with regard to empty premises both commercial and residential.

1.11. The bill also enables the Secretary of State to give "risk-mitigation directions" or intervene in local authorities if a council breaches a threshold of a number of measures, including level of debt, number of commercial investments or "other metrics" set by the local government secretary.

Council Tax Premium on Second Homes

1.12. The Government is proposing that billing authorities will have the power to charge a 100% premium on second homes or empty dwellings which subject to consultation and Council's approval could increase the Council Tax funding available to the Council.

Planning

1.13. Several reforms are also being introduced to the planning system with the aim that "more homes can be built." "Simplifying and standardising the process for local plans." To improve capacity in the planning system, planning fees will be increased for "minor and major applications by 35% and 25% respectively, subject to consultation".

1.14. It proposes a new "locally set, non-negotiable levy to deliver infrastructure" aimed at capturing more of the financial value created by development to capture the infrastructure communities need. Thresholds and rates will be set in local charging schedules. The new infrastructure levy is expected to largely replace the current system of Community Infrastructure Levy (CIL) and section 106 payments. This should result in greater certainty around costs for developers.

White and Green Papers, and Other Policy measures

1.15. Ahead of legislation Government often publish other documents such as White and Green papers to make statement of policy or strategy intent ahead of planned legislative change, seeking views before proceeding with formal legislation. It is important that the Council is aware of and feeds into these. Two major publications impacting areas of high financial risk to the Council relate to special educational needs and disabilities services and Adult Social Care.

SEND Green Paper

1.16. On 29 March, the Government published a special educational needs and disabilities (SEND) green paper and consultation called “SEND Review: Right support, right place, right time”.

1.17. The consultation sets out proposed reforms to the SEND and alternative provision (AP) system that seek to address three key challenges:

i. poor outcomes for children and young people with SEN or in alternative provision

ii. navigating the SEND system and alternative provision is not a positive experience for children, young people, and their families and;

iii. despite unprecedented investment, the system is not delivering value for money for children, young people, and families.

People at the Heart of Care: adult social care reform white paper

1.18. Since the long-awaited adult social care system reform white paper was published in December, which is proposing to reform the following four key charging elements:

- Increased assessments, reviews, and care management responsibilities.
- Increase in both the lower and higher thresholds which affect when the public sector starts to pay for care and how much it contributes.
- The introduction of the cap which limits the amount that individuals might contribute towards their care.
- That self-funders can ask the local authority to commission care at local authority fee levels on their behalf.

1.19. The Council has been actively working to understand the potential impact of the care charging reforms on our local area provider market and the Council and planning for successful implementation in October 2023. See section 2.36 for more details.

2. Medium Term Financial Outlook

2.1. The Budget approved by the Council in March 2022 outlined a 5-year balanced position. This section summarises the impact of changes to all previously agreed assumptions in the financial outlook as included in the budget set by Full Council in March 2023. For avoidance of doubt, this includes delivery of all previously agreed savings over the medium term (net of 20% optimism bias), increases in funding, inflation and pressures already included within the outlook.

2.2. The medium-term position has worsened predominantly as a result of inflationary pressures and indicates work needs to start earlier in the year to looking at how the Council can mitigate these pressures over the short term to ensure longer term resilience and sustainability to other shocks that may occur in the future.

2.3. It should be noted due to uncertainty of many of the assumptions and economic forecasts any projections into the medium or longer term are speculative and should be treated with caution.

2.4. In reviewing the financial outlook different scenarios have also been modelled to stress test the key assumptions for best case and worst case in relation to both core funding and cost perspectives to analyse the likelihood that an alternative budget strategy / mitigation would be required.

2.5. The scenario testing indicates that should all the ‘best-case’ assumptions materialise, which include areas outside of the Council’s direct control such as national pay negotiations, and new grant funding, a small deficit of £1.3 million would need to be addressed over the medium term. The collective probability is considered low and level of risk exposure high, leaving little resilience should it be required for capital investment or to address other emerging pressures outside the general fund. It is not recommended that the Council plans on this basis.

2.6. Should the compound adverse movement (worst case) occur in all areas with no increased funding, the budget gap would increase to £24.7 million in 2023/24. The scale of the gap in 2023/24 would prove extremely challenging to deliver in year and likely to result in a full depletion of the general reserves. The collective probability is also considered exceptionally low and would require more drastic mitigation measures than necessary.

2.7. The medium case is a reasonable one, indicating risk of £6.5 million budget gap by 2027/28 however the gap is expected to peak 2023/24 at £13.6 million. Planning on this basis will ensure a proactive approach is being adopted and will support sustainability and resilience. The likelihood is that elements from both the best and worst case could arise, have an offsetting impact, and providing options for the decisions that will be in the Councils remit.

2.8. *Figure 2* shows the potential risk and impact of these pressures over the medium term. This shows the main impact is being felt this financial year (2022/23) and next year (2023/24) – assuming £6.8 million of the current forecast pressure for 2022/23 is not mitigated on a recurrent basis.

Figure 2: Financial Outlook

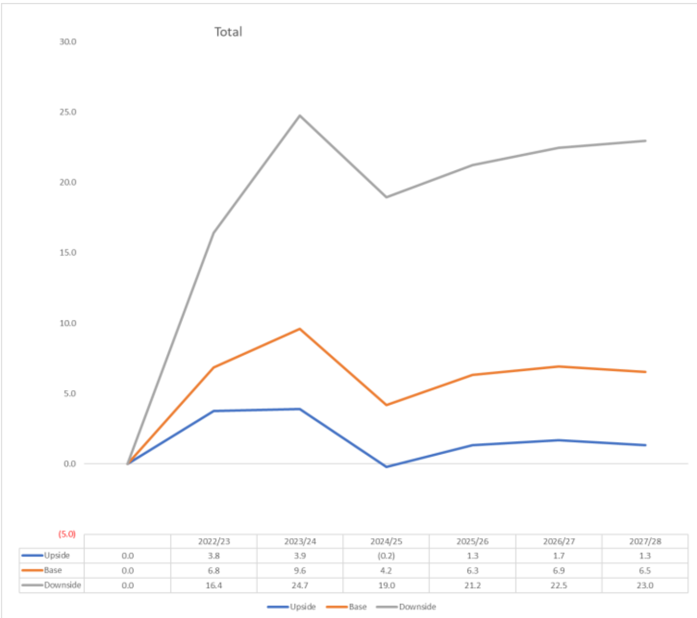


Table 1: Movement in forecasts budget gap

2022/23 £m		2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
0.0	**March 2022 Forecast Gap**	0.0	0.4	0.4	0.4	(1.8)
0.0	Change in Funding	1.6	10.8	8.6	7.9	10.3
(6.8)	Changes in Costs	(15.2)	(15.4)	(15.3)	(15.2)	(15.0)
(6.8)	**July 2022 Forecast Gap**	**(13.6)**	**(4.2)**	**(6.3)**	**(6.9)**	**(6.5)**

General Fund - Indicative Available Funding

2.9. The forecast level of overall general fund resources available to the Council, including retained business rates, central grants, and Council Tax income, over the next financial year is projected to be £429.8 million (this figure is £1.6 million higher than originally estimated in the budget) and broken down in Table 2 below.

2.10. The forecast funding is based on assumptions on changes in residential properties in Bristol as result of forecast demographic growth. It is also making assumptions about specific increases in Council Tax rate or decisions on discounts and premiums and it is important to note it sets out available funding, however actual funding available will depend on decisions taken at appropriate time as part of annual budget setting.

Table 2 - Funding Available, changes since March 2022

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
March 2022 Forecast	428.2	437.2	447.1	458.4	458.5
July 2022 Forecast	429.8	448.0	455.7	466.3	468.8
Changes since March 2022	1.6	10.8	8.6	7.9	10.3
Of which:					
2021/22 Collection Fund Outturn	(4.0)	0.0	0.0	0.0	0.0
Council Tax Second Home Premium	0.0	4.6	4.7	4.8	4.8
Business Rates Multiplier	0.1	3.5	1.2	0.4	2.7
Additional grants	5.5	2.8	2.8	2.8	2.8

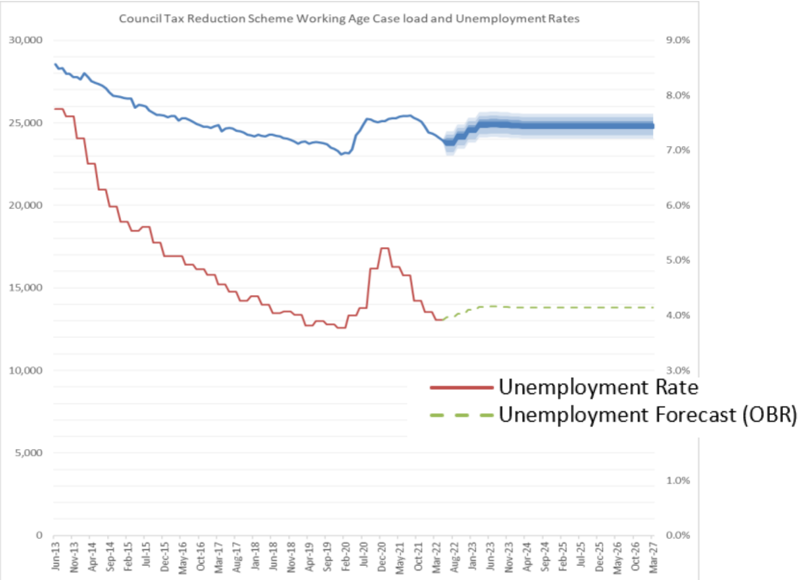
2.11. The changes to assumptions since the budget in relation to each of the funding categories are outlined in the subsequent sections.

Council Tax Reduction Scheme – Working Age

2.12. There are various discounts and exemptions to Council Tax such as single person discount, student exemptions and Local Council Tax Reduction Scheme. Most of these are set at a national level except for the Local Council Tax Reduction Scheme. The pensioner element of this scheme is set nationally and replicates the level of support under Council Tax benefit (ie. the lowest-income pensioners do not have to pay any council tax). Local authorities are required to design their own scheme for low-income council taxpayers of working age and for Bristol this broadly replicates that for pensioners, in that those on the lowest income do not have to pay Council Tax.

2.13. *Figure 3* shows the trend in caseload for working age council tax reduction scheme which has a strong correlation with unemployment. Long term forecasts for unemployment remain broadly consistent with current levels and the current assumption in the budget of slight increase in 2023/24 followed by constant caseload for Council Tax Reduction Scheme is still consider appropriate with the current scheme in place.

Figure 3: Trend and forecast for working age CTRS Caseload compared to levels of unemployment



Council Tax Second Home Premium

2.14. The Levelling Up and Regeneration Bill includes proposal that billing authorities will have the power to charge a 100% premium (proposal for 300% premium in Wales), on second homes or empty dwellings. Whilst the bill is still subject to change as it progresses through parliament the estimate could yield an additional £4.6 million Council Tax for Bristol City Council. It would require a local decision whether to apply the premium but dependent on when legislation receives royal ascent the premium could be applied from April 2024 at the earliest.

Business Rates Multiplier and Settlement Funding

2.15. Local authorities have retained 50% of business rates real-terms changes in business rates revenue (growth) through the business rates retention scheme since 2013/14. The government's original intention was to reset local authority baselines (the target level of business rates it expects each local authority to collect each year) in 2020. In 2015, the government set out ambitions to allow local authorities to retain 100% of business rates growth by 2020 and several pilots were established.

2.16. In line with the principles of business rates retention business rates are increased by inflation each year. Previously if the multiplier is frozen instead of increasing in line with inflation, the Under-Indexing Multiplier Grant would be increased to ensure that local authorities' shares of income are not impacted. The current high levels of inflation provide an increase in estimated business rates in 2023/24 and over the medium term, however it is assumed any compensation for freezing business rates would be capped at 3%.

2.17. The position remains very uncertain, and the Council is carrying significant risks in relation to business rates. From the changes in the economic context there is significant uncertainty regarding business rates appeals which remains a high risk. The spending review indicated a 10% reduction in the level of business rates retained by local authorities from 2025/26, indicating there is risk to retaining the growth seen since business rates retention was implemented.

Collection Fund Surplus / Deficit Outturn 2021/22

2.18. The collection fund outturn for 2021/22 shows local tax income losses were worse than estimated in the budget. The actual movement from the budget estimates for 2021/22 deficits will impact on the 2023/24 budget as they are included in the collection fund estimates for 2022/23 later in the year.

2.19. Driven predominantly by an increase in the business rates appeals provision the deficit increased by £4.0 million to £6.830 million which will need to be funded in 2023/24.

Table 3: Breakdown of carry forward deficit from 2020/21 and 2021/22 on Collection Fund

	Council Tax £m	Business Rates £m	Total £m
Movement in 21/22 Outturn	(0.391)	3.335	2.944
Losses from 20/21 (spread over 3 years)	1.103	2.783	3.886
Total	**0.712**	**6.118**	**6.830**

2.20. At this point the collection fund for 2022/23 is assumed to be balanced, however there is a risk there could be a further deficit from 2022/23 Collection Fund.

Grant Funding

2.21. Since publication of the budget, there has been no new information related to local Government funding regarding future for current grant income. At time of writing the Council are still waiting notification of consultations regarding local government funding reform and future of key grants deemed one -off, such as New Homes Bonus and the 2022/23 Services Grant.

2.22. The 2022/23 budget assumed £11.275 million of non-ringfenced grants as one-off. Due to delays in Local Government Funding reform, however whilst these have not been assumed in the funding available in the medium-term outlook there is the potential that grants up to these levels may be rolled forward into the 2023/24 settlement. An element of roll-forward has been assumed in the outlook, but initially at 50% of previous levels until further certainty regarding how Government plan to distribute the grants is known.

Table 4: Breakdown of 2022/23 One-off Grants

Grant Name	£'m
2022/23 Services Grant	7.032
Lower Tier Services Grant	0.814
New Homes Bonus	3.430
Total	**11.275**

Emerging Financial Pressures

Summary

2.23. The review undertaken to inform the financial outlook refresh has indicated a range of emerging general fund risks which are presenting challenges which may not be readily contained within existing resources or mitigated without additional funding or broader transformational interventions.

2.24. The emerging pressures over the next planning period total £17.9 million as shown in *Table 5*. The underpinning assumptions in relation to each of the categories of emerging pressures are outlined in the subsequent sections.

Table 5

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
March 2022 Forecast	428.2	436.8	446.7	458.0	468.4
July 2022 Forecast	443.4	452.2	462.1	473.2	483.4
Changes since March 2022	15.2	15.4	15.3	15.2	15.0
Of which:					
Pay Award	3.3	3.1	3.0	2.8	2.6
Inflation	10.7	10.7	10.7	10.7	10.7
Capital Financing	1.2	1.6	1.7	1.7	1.7

Inflation

Pay Award

2.25. The annual budget and medium-term outlook include provision for an annual pay award of 2.5%. The current year's pay discussions have commenced between Unions and employers with Unions setting out an ask for a *"£2,000 rise at all pay bands or an increase based on the rate of RPI Inflation".*

2.26. An additional 1.0% increase in pay away would result in additional costs of £1.9 million per annum.

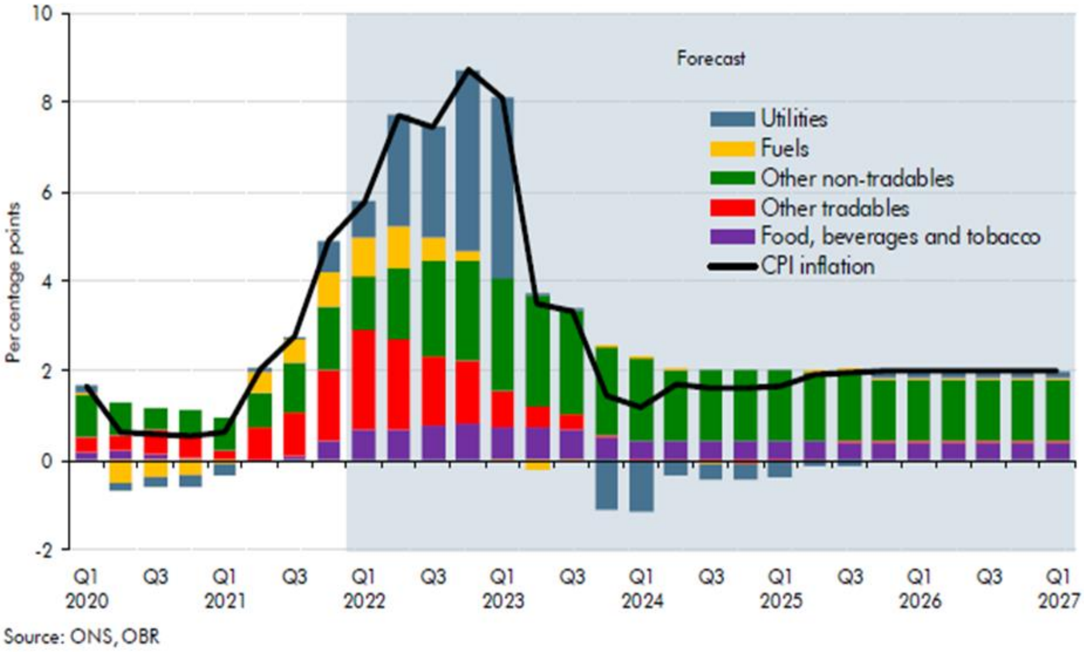
Contractual Inflation

2.27. Services are expected to absorb annual inflationary pressures within existing budgets and historically a corporate in inflation allowance of 2.0% of c.£5 million has been included in each year, to allow for material contractual inflationary cost pressures which cannot be managed within a service. The 2022/23 budget increased this to 4.0% for 2022/23 and 3.00% for 2023/24 as well as specific allowance related to Energy and Adult Social Care inflation above these levels.

2.28. The drivers behind current levels of inflation mean the impact on Council services is varied. The approach taken in this outlook is to model an increase the level of general inflation contingency by 1.0% for 2023/24 and look at specific areas and include industry specific pressures where either there are contract commitments or evidenced industry specific inflationary pressures, such as Energy, Accommodation, Transport, Waste Disposal and Social Care.

2.29. Whilst its worthwhile stating that no decisions have been made in this regard, considering this change a further pressure of £5.5 million could emerge in 2022/23 and £8 million in 2024/25 above what was already assumed.

Figure 4: OBR Forecast for CPI inflation and contributory factors



Savings Delivery

2.30. The savings programme agreed by Council in March 2022 included savings totalling £34 million over the medium term of which £17.9 million is attributed to 2022/23. In addition, £6.4 millions of savings were carried forward from prior years which still require delivery.

2.31. In setting the budget some of the savings were at early stages of development and a suitable optimism bias applied to these savings. The value of savings at risk exceeds that value, however work is on-going to implement the savings plans. As such there is both a risk and opportunity to the financial outlook dependent on the delivery of these savings which is included in the downside and upside scenarios, respectively.

2.32. Similarly delivery of legacy savings could represent an opportunity if these are delivered on a recurrent basis with £2.8 million residual contingency related to these savings

Capital Financing and Interest Rates

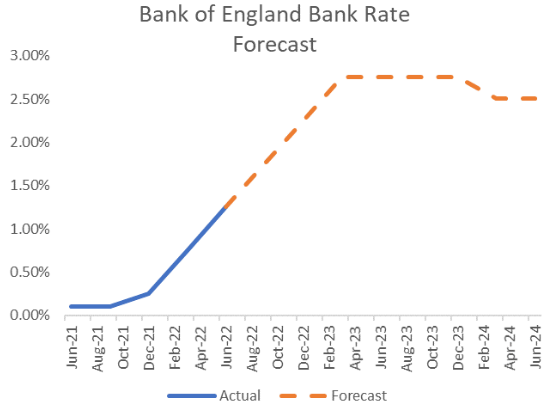
2.33. As noted above Bank of England Base Rate is now 1.25%. This is an increase of 0.50% from when the budget was set in March 2022.

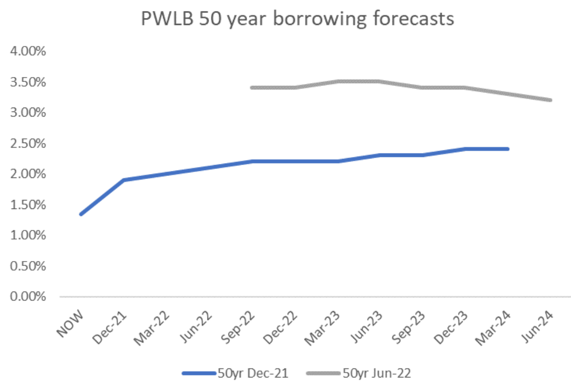
2.34. Figure 5 shows the change in medium term forecasts for base interest rate and PWLB 50 year borrowing rate between December forecasts, used to inform the budget, and the latest forecasts. The increase in forecast interest rates above the previous forecasts has increased the cost of borrowing through Public Works Loan Board (PWLB) by just over 1.0% for long term borrowing.

2.35. Based on the current planned borrowing of £600 million over the medium term this could add up to £6 million additional interest costs every year.

2.36. Impact of further variations to forecast interest rates, both in terms of investment returns and borrowing costs will also present a corporate risk. Interest rate risks are managed through effective treasury management and the use of fixed rate loans where appropriate.

Figure 5: Forecasts for Bank of England base rates and impact of recent changes in long-term borrowing rates





Adult Social Care Reform

2.37. The Adult Social Care white paper sets out huge reforms of how Adult Social Care is paid for. There are four key components that will impact the Council's spending as well as resource to implement and manage the key responsibilities on Councils.

i. **Care Cap** - there will be a cap of £86k on the amount any individual can spend on their personal care over a lifetime. Any spend above this will be paid for by the local authority.

ii. **Means Testing -** The introduction of a more generous means test will mean that anyone with assets of less than £23,250 will not pay for their care at all, and anyone with assets between £23,250 and £100,000 will receive some assistance.

iii. **Fair cost of care** - Local authorities are required by October 2023 to 'move towards paying a 'fair cost of care'. This is intended to ensure that providers receive sustainable funding, to deliver high quality, consistent care.

iv. **Care Brokerage** - self-funders can request an assessment from their local authority. They will also be able to ask the local authority to source and broker their care for them. This should mean that self-funders start to pay the fair cost of care.

2.38. The funding for this has been identified as the new Health and Social Care National Insurance levy. Apart from some small initial tranches of funding announced for local authorities to start to implement the changes required the initial income from the levy will go to the NHS. Therefore, until recurrent funding is announced there is risk the funding initially earmarked will not be re-allocated to local authorities when needed.

2.39. The first independent analysis by the County Council Network and Newton estimates that *"the costs of reforms in the nine years from when they are introduced to 2032 could be a minimum of £10bn higher than currently estimated by the Government and could create a further workforce crisis in social care, with over 5,000 extra staff projected to be required to carry out extra care and financial assessments for those seeking to benefit from the reforms"*.

2.40. There is also the risk the full cost of implementing these reforms, is not fully compensated to local authorities and work is being undertaken across the sector to ensure the cost of these changes is fully understood at a local level and sufficient funding is made available. It is important to note any financial impact on the Council is not modelled into the above figures.

Ring Fenced Funds

Public Health (PH) Grant

2.41. Public health services are funded by a ringfenced grant to the Council which for 2022/23 was £34.6 million and represented an increase of 2.81% in comparison to the prior year (£33.6 million 2021/22). The grant is likely to continue to be subject to conditions on what it funds, including a ring-fence requiring local authorities to use the grant exclusively for public health activity which may include public health challenges arising directly or indirectly from Covid-19.

2.42. The Spending Review 2021 committed to increase the Public Health Grant in real terms for the period of the spending review however considering the significant inflationary increases it is unknown whether this commitment will be kept, and the Council should make plans to ensure increased cost of services are contained within the envelope provided.

2.43. Within the Council's earmarked reserve is a Public Health ring fenced reserve of £3.8 million as of 1 April 2022. This will be assumed in the plans to be developed over the medium term and provide a small buffer for unexpected adverse grant allocations

Dedicated Schools Grant (DSG)

2.44. The 2021 Spending Review committed real terms increases to Education Spending over the next two years. The High Needs Block received 14.4% increase in 2022/23 and recommended future budget funding assumptions of 5% increase in 2023/24 and 3% for subsequent years thereafter. Increasing inflation will clearly erode how much this additional funding is in terms of a real terms increase and some will address inflationary pressures not some of the funding concerns the spending review initially set out to address.

2.45. The indicative figures for 2023/24 are built into the deficit management plan. The additional High Needs block funding allocation 2022/23 and beyond results in an improved unmitigated DSG deficit forecast of £81.9m in 2025/26 (previously £89m).

Housing Revenue Account (HRA)

2.46. The HRA includes all expenditure and income incurred in managing the Council's housing (circa 28,000) and, in accordance with government legislation, operates as a ringfenced account with a 30-year business plan. This means that the HRA does not receive any subsidy from the government or from Council Tax. The legislation sets out those items that can be charged to the HRA and it is not allowed to subsidise the General Fund.

2.47. The HRA is required to be self-financing over time with demonstrable sufficient resources to meet future operational commitments, any potential financial pressures or risks identified and approved investment plans. Surpluses or deficits generated in each year will be transferred to / from the HRA general reserve.

2.48. The Energy and inflationary pressures noted above are also felt across the HRA services. In particular inflation on construction, repairs, increase spending on existing stock and cost of borrowing. The rent standard currently allows rents to increase by 1% above inflation (CPI + 1%). Given inflation is expected to reach roughly 10% in the third quarter of 2022, many landlords are unlikely to implement this scale of increase in 2023/24 because of tenants' affordability constraints. At the same time the higher costs, will "dampen margins" and could impact on the 30 year HRA Business Plan.

Capital Programme

2.49. Capital investment relates to construction and infrastructure costs, in particular labour and material costs.

2.50. Since the pandemic there has been several compounding inflationary pressures on this type of spend. Initially as a result of supply disruption further exacerbated by the war in Ukraine, material prices have experienced significant increases, compounded by the increase in energy costs which are a high proportion of cost base for material supply.

2.51. The increase in National Insurance rates, impact of the availability of labour and cost of living crisis is having impact on the labour costs within the construction industry. With forecasts of inflation hitting 10% this year there is a view that construction inflation will continue above general levels of inflation in the medium term.

2.52. The funds available to finance capital investment are set out in the current capital programme which also provides a level of contingency against emerging pressures such as inflation. Inflation contingencies are expected to be included in business cases. Any further pressures due to inflation would need to be contained within the funds available, and any capital schemes not able to contain this additional cost will need to reconsider prioritisation, scope, and delivery timeline to ensure increased costs don't impact on the revenue position and require additional borrowing.

3. Financial Planning Timetable

3.1. Outlined below is the indicative timetable for the development of the Medium-Term Financial Plan & Capital Strategy and the 2023/24 Annual Budget for the General Fund including Public Health, Housing Revenue Account, Dedicated Schools Grant, and the Councils Capital Programme. Please note that in some instances the dates are indicative or to be confirmed and as such may be subject to change.

Table 6- Draft Budget Timetable

Activities	Date
Planning and commencing service planning	July – September 2022
Medium Term Financial Plan and Capital Strategy	October-November 2022
Public consultation of budget	November – December 2022
Approval of Council Tax Base and Collection Fund Estimates	December – January 2023
Budget Proposals recommended by Cabinet	January 2023
Approval of 2023/24 Budget and setting of Council Tax	February 2023