Medium Term Financial Plan 2023/24 – 2027/28

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 is a rolling 5-year plan which is currently covering the period 2023/24 to 2027/28. The purpose of the MTFP is to provide a strategic framework to meet corporate priorities, taking a forward-looking approach to the management of the Council's financial resources and achieving sustainability over the medium term. It closely aligns with other key aspects of the financial planning process, including the Council's Capital Strategy.

1.2. As a living document it is subject to annual review and revision and builds on the mid-year financial outlook. It needs to be responsive to changing national factors, local priorities and conditions, and take account of emerging pressures, risks and opportunities to the Council's financial position. It provides a forecast outlook and identifies any potential gap in the budget requirement, aids robust and methodical planning, seeks to protect the financial health of the Council, considers the appropriate level of reserves that the Council holds to mitigate current and longer-term risks and ensures sustainable services, so that financial resilience can be achieved.

1.3. It is important to understand that the MTFP does not constitute a formal budget. It provides the financial parameters within which budget and service planning should take place, to ensure the Council sets a balanced budget. In accordance with Section 31A(11) of the Local Government Finance Act 1992, the final decisions on the overall Budget and Council Tax level are for full Council and following the appropriate consultation and considerations, must be made by Council before 11 March 2023.

2. Executive Summary

2.1. The MTFP underpins the Council's financial planning process and outlines the potential 'funding gap' which is the difference between the funding the Council expects to receive, and the estimated cost of delivering agreed services for the period 2023/24 to 2027/28. The funding gap is generally as a result of funding failing to keep pace with demand, inflation and other financial pressures. One of the main objectives of the MTFP is to plan for the delivery of services within an uncertain external environment and to ensure the achievement of value for money.

2.2. Local Government has played a key role in the delivery of local services during the period of the pandemic and supporting citizens and businesses during this cost of living crisis. However, we are not immune to these pressures and the Council is facing a challenging financial outlook. The pressures of disruption in global supply chains, labour shortage, high inflation levels, coupled with an ever-increasing demand for core services, is presenting a challenge across the whole local government sector.

2.3. Under the government's three-year Spending Review, announced last October, the funding plans for local authorities in 2023/24 are 'cash flat' – meaning no rises are planned. Unless government increases funding allocations for local authorities in line with inflation, services will face further real terms cuts.

2.4. Based upon the available information and assuming government support is not forthcoming, the Council's budget gap is set to grow. **The General Fund base case forecast** financial pressures and indicative funding, result in **a peak funding gap of £37.5million** over the period of the MTFP with £31.1 million attributed to 2023/24 as summarised in the table below.

Table 1: Summary Financial Outlook

General Fund Outlook	2023/24	2024/25	2025/26	2026/27	2027/28

	£m	£m	£m	£m	£m
Original Budget (March 2022)	428.235	437.167	447.096	458.379	458.507
Total Emerging Pressures	38.590	45.232	44.458	45.342	46.007
Indicative Budget Requirement	466.825	482.399	491.554	503.721	504.514
Total Indicative funding	(435.687)	(445.314)	(455.349)	(466.741)	(466.979)
Indicative Funding Gap	31.138	37.085	36.205	36.980	37.535

2.5. This funding gap needs to be viewed in the context of post pandemic and the additional cost of living cost and demand pressures. The forecast is extremely sensitive to inflation and core funding and by revising the forecast to best and worst case of these factors the forecast position could vary to between £27.5 million - £81.1 million and as such a degree of resilience in our planning assumptions and finances will be critical.

2.6. The funding gap will need to be addressed and it is inevitable that the £34.3 million of savings planned over the medium term as part of the 2022/23 budget will have to increase significantly. The Council will not be able to resolve this problem on its own, either expectations of what can be delivered will have to reduce or new funding found.

2.7. The planning assumption is that **Public Health, and the Housing Revenue Accounts (HRA**) are ringfenced accounts and operate on a principal of self-funding, as such they will seek to contain the additional costs and any new burden. There is a risk however that in the absence of additional Public Health funding, the service, traded services and/or our subsidiarises may be unable to absorb the full impact of the pay offer and inflation, and this could lead to a depletion of ring fenced reserves and a call on the central contingency.

2.8. The forecasted deficit to be carried forward in the **Dedicated Schools Grant (DSG**), continues an upward trend and is expected to reach circa £44.6 million by the end of 2022/23. This forecast is in line with the DSG cumulative deficit position outlined in the March 2022 budget report. The provisional DSG Block funding (excl. early years) has been published for 2023/24, with a provisional uplift to the High Needs Block of 5%. Based on current trends and 5% funding, if unmitigated the indication is that a cumulative deficit position of £63.1 million could be reached by the end of 2023/24.

2.9. A longer term plan is required, and the evolving Education Transformation Programme aims to improve the experiences and outcomes of children and young people, enable need to be met in a sustainable manner and addresses the increasing financial challenges for the local authority, and the Council's acceleration to tranche 1 of the Department for Education (DfE) Delivering Better Value in SEND (DBV) programme will provide the Council with additional support in achieving this objective.

2.10. Despite these funding constraints the Council will need to adapt swiftly and innovatively to meet the needs of our residents in a rapidly changing world. The Council remains committed to tackling the financial challenges, while at the same time modernising the services it delivers with a clear emphasis on tackling poverty and inequality and addressing climate change, in partnership with residents and other organisations. The Council will need to continue to work to assess, quantify and where possible manage emerging pressures outlined in this report, and ensure that in achieving a balanced position, investment and disinvestment decisions are driven by our strategic priorities.

2.11. While Revenue budget expenditure is concerned with the day-to-day running of services our Capital Programme is concerned with investment in the physical assets required in Bristol as a place; to maintain the essential infrastructure and attractive environment that we know is so important to the people who live, work and visit the city.

2.12. The Capital Strategy 2023/24 to 2032/33 sets out a framework for funding and investment decisions in respect of capital assets, in the context of our vision and priorities and available financial resources. As a rolling strategy with an annual refresh, it sets out the long-term context in which capital expenditure and investment decisions are made. In addition to the budgetary impact, it considers both risk and reward and impact on the achievement of priority outcomes.

2.13. Capital investment decisions have implications for the Revenue budget, in relation to:

- The revenue costs of financing capital, including prudential borrowing.
- The ongoing running costs and/or income generated by new capital assets such as buildings.

2.14. A key consideration in assessing the Council's resilience will be the adequacy of the Council's reserves and the need to be continually alert to the risks and uncertainty to which the Council could be exposed and ensure the financial sustainability of the Council would not be challenged over the medium term. As a matter of prudence, the Council aims to manage the level of the reserves held at between 5% - 6% of the net revenue budget, in order to cover any major unforeseen expenditure.

2.15. The Council will need an approach that meets service demand in a sustainable manner; leveraging external income, maximising locally generated income and reducing costs in order to provide ongoing resilience against a backdrop of continuing economic uncertainty.

3. Governance

3.1. Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision and the Chartered Institute of Public Finance & Accountancy (CIPFA) Professional Financial Management Code. The purpose of the Code is to provide a solid foundation to manage the short, medium and long term finances of the organisation; to manage financial resilience, to meet unforeseen demands on services and to manage unexpected shocks in financial circumstances and to place long term sustainability of local services at its heart.

3.2. The Council is compliant with the standards outlined in the code (the supporting Financial Management Standards are summarised in Annex 1), which provides assurance of the Council's effectiveness in its prudent use of public resources, financial management, adherence to legislative requirements in our jurisdictions and evidence of good governance. Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. elected Members, Scrutiny and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and review the plan.

3.3. The transition from high-level planning principles, to detailed budgets that align with the Council's priorities, is shaped by elected Members with support and advice from senior management. As proposals develop, engagement is extended to a wider range of partners including citizens, staff, Schools Forum and Trade Unions. Consultation feedback is considered as part of the finalisation of the annual budget proposals.

4. Council Priorities

4.1. The Council's Corporate Strategy 2022 - 2027 lays the foundation for delivery of the vision for Bristol including the key priorities to be delivered over the medium term. It consists of **7 high level strategic themes** and 32 priorities that are the most important in achieving the Council's vision. As seen in Figure 1 below they are all underpinned **by 5 building blocks** and the values and behaviours that guide how the Council will work.

Figure 1: Corporate Strategy at a Glance

4.2. The Corporate Strategy links with other key strategies and contributes to the delivery of the long-term One City Plan and shared vision for the city. The MTFP and Capital Strategy sit alongside and seek to complement the Corporate Strategy (medium term) 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 targets available resources to the priority areas and regulatory obligations that may arise over the medium term.

4.3. A robust MTFP will seek to ensure:

- Sufficient provision is available for a balanced budget to be achieved in all five years of the MTFP
- An alignment of expenditure to the strategic priorities contained in the Corporate Strategy
  - i. ***Children and Young People -*** *City where every child belongs and every child gets the best start in life, whatever circumstances they were born in to.*
  - ii. ***Economy and Skills*** *- Economic growth that builds inclusive and resilient communities, decarbonises the city and offers equity of opportunity.*
  - iii. ***Environment and Sustainability-*** *Decarbonise the city, support the recovery of nature and lead a just transition to a low carbon future.*
  - iv. ***Health, Care and Wellbeing*** *- Tackling health inequalities to help people stay healthier and happier throughout their lives.*
  - v. ***Homes and Communities*** *- Healthy, resilient and inclusive neighbourhoods with fair access to decent, affordable homes.*
  - vi. ***Transport and Connectivity -*** *A more efficient, sustainable and inclusive connection of people to people, people to jobs and people to opportunity.*
  - vii. ***A Development Organisation*** *- From city government to city governance: creating a focussed council that empowers individuals, communities and partners to flourish and lead.*
- The making of suitable provisions for general reserves and known liabilities.
- Building sufficient risk / contingency allocations into budget plans.
- Making plans for capital financing that are appropriate, timely, cost effective and affordable across the life of the asset.
- Principles are adopted for how we spend, save and invest that drive value for money and safeguard public money.

Implications for Financial Planning

The MTFP needs to reflect the revenue funding requirements of the Corporate strategy. This will include, where applicable, the financing requirements of capital investment needed to deliver the priorities. Funding solutions will not always mean a revenue budget allocation or the inclusion of a sum in the capital programme. In developing a financial strategy to support policy delivery there will be a need to draw on earmarked reserves set aside to support change, to proactively seek external funding and to work with partners in delivering solutions.

4.4. The themes, priorities and principles above are also used to set the framework for performance monitoring and guide the alignment and development of affordable and sustainable annual service and business planning across the Council.

5. Financial Outlook

The financial outlook considers the implications of the following on both the demand for services and likely resourcing levels over the next 5 years:

1.2. National Economic Context

1.3. New Legislative and Policy Change

National Context

5.1. Since the Council approved the current budget and five-year outlook in March 2022 there have been significant changes to the background context. The world economy, already weakened by the Coronavirus pandemic, now faces high inflation and the wide-spreading ramifications of a war in Ukraine.

5.2. In February 2022, the Department for Levelling Up, Housing and Communities (DLUHC) approved a 3-year settlement for Local Government. The settlement frontloaded funding to councils for 2022/23, with no additional funds made available for 2023/24 and 2024/25. This indicates the funding plans for local authorities are 'cash flat' – meaning, services will face further real terms cuts. The agreed settlement was prior to any knowledge of the current inflation and cost of living crisis impacts on local government.

5.3. The outlook has changed, with inflation rates rising steeply and impacting not only on the Council's own expected future costs of supplies, but also on local business' finances and viability and the cost of living for our residents – in the latter case, leading to potential increased fuel and food poverty being seen.

5.4. The Bank of England has responsibility for controlling the annual inflation rate and thereby ensuring price stability. Earlier this year inflation was recorded as having reached a 30 year high. It is currently recorded as being 9.9% (CPI) compared to 1 year ago. This level of inflation significantly exceeds the Bank of England's target of 2%. Therefore, to reduce inflation and bring stability to the rate, the Bank of England decided in September of this year to increase the bank interest base rate by 0.5% to 2.25%. The market is predicting that this base rate will rise above 3% by the end of 2022 and as high as 4.25% by August 2023. The IFS has stated that the effects of inflation on local government could be worse than the period of austerity after 2010 if there is no increase in public sector funding to compensate for rising costs.

Table 2: 12 Month Inflation

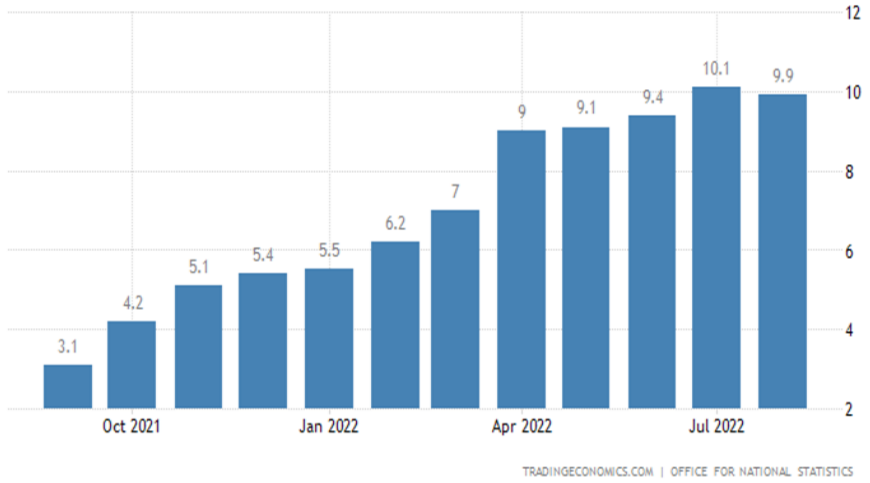
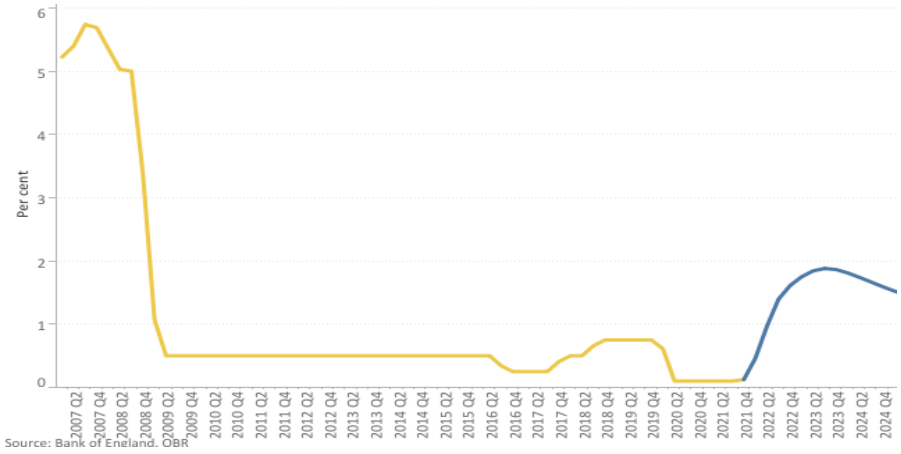


Table 3: Historic and Forecast Interest Rate



Interest Rate Forecasts

5.5. Rising interest rates may have repercussions for public finances. Future government debt becomes more expensive, which could put a further squeeze on public spending and future restrictions on local government borrowing.

5.6. The Council currently makes use of internal borrowing from reserves and balances to fund new capital expenditure although the requirement to borrow (known as the Capital Financing Requirement) is set to increase by around £105 million and £346 million for the General Fund and HRA respectively over the next 5 years, putting pressure on the Council to take on Public Works Loans Board (PWLB) external debt. The increases in borrowing rates illustrated above are around 1.5% higher than those used in the MTFP in the earlier period moving to 2% higher in the later years. As reserves are utilised reducing the availability for internal borrowing this could have a material impact on capital financing.

5.7. Over the life of the MTFP the Council's subsidiary companies will equally be affected by interest rate rises over the life of the MTFP, possibly by as much as £37.9 million for loans from the Council which have not yet been drawn down. This may impact on project viability and profit / returns to the Council. These changes have yet to be factored into the MTFP assumptions below.

5.8. Following the appointment of the new Prime Minister and Cabinet in September 2022, the government announced a range of financial measures to address NHS challenges, tackle cost of living pressures, inflation and stimulate economic growth.

- The **Energy Price Guarantee** will reduce the unit cost of electricity and gas so that a typical household pays, on average, around £2,500 a year on their energy bill for the next 2 years, from 1 October 2022.
- The **Energy Bill Relief Scheme** to provide relief for non-domestic customers by providing a discount on wholesale gas and electricity prices. Discounts will be applied to energy usage between 1 October 2022 and 31 March 2023, including for the Public Sector. The government supported price has been set at:
  - £211 per megawatt hour (MWh) for electricity
  - £75 per MWh for gas

The Department for Health & Social Care (DHSC) to provide:

- £500 million dedicated funding for hospital discharge to help people to receive four to six weeks' free social care on leaving hospital to remove barriers to discharge.
- £15 million to support care providers to recruit staff from overseas, visa processing, accommodation and pastoral support for new recruits.

5.9. The main headline changes from the fiscal event 'mini budget' are outlined below

- **Reversal of Health & Social Care Levy** of 1.25% on national insurance contributions effective from 6 November 2022
- **Basic rate of income tax to be cut** by 1p to 19% with effect from April 2023
- **The additional rate of income tax of 45% and dividend tax of 38.1% to be abolished** from 6 April 2023
- The planned **increase in corporation tax to 25% effective from April 2023, has been cancelled** so one rate of 19% remains
- The **Annual Investment Allowance limit** which was due to reduce from £1m to £200,000 from April 2023, will not happen. The allowance will be permanently set at £1m
- **Investment zones** (including West of England Combined Authority) will be introduced with specific tax benefits including:
  - 100% business rates relief
  - Full stamp duty land tax relief (SDLT) on land bought for commercial or residential development
  - 100% first year enhanced capital allowances for plant and machinery and 20% Enhanced Structures and Buildings Allowance
  - Zero rate on employer NIC on new employee earnings up to £50,270 per annum
- A turnaround in relation to **off-payroll working (IR35)** - reforms introduced in 2017 and 2021 will be repealed from April 2023. With the responsibility for determining employment status and paying the appropriate tax on the personal service entity
- With immediate effect, **the threshold to pay SDLT on residential properties will be increased** from £125,000 to £250,000. The rate for first-time buyers will also increase from £300,000 to £425,000 and the maximum value of a qualifying property for first-time buyers will increase to £625,000
- **Universal Credit Claimants** who earn less than the equivalent of 15 hours a week at National Living Wage will be required to meet regularly with their Work Coach and take active steps to increase their earnings or face having their benefits reduced
- Plans to **accelerate new roads, rail and energy infrastructure**
- The government will change regulations to **increase investment by pension funds** into UK assets, benefiting savers and boosting economic growth, and incentivising investment into Britain's science and tech companies.

5.10. No announcements have been made or plans outlined in respect of public spending and public services.

New Legislative and Policy Change

5.11. 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

5.12. These pieces of legislation were covered in the financial outlook (July 2022) and as such have not been covered in this refresh.

Liberty Protection Safeguards

5.13. The replacement of the statutory Deprivation of Liberty Safeguards (DoLS) policy and procedures with the new statutory Liberty Protection Safeguards (LPS) policy and procedures as part of the Mental Capacity (Amendment) Act 2019.

- *This is the biggest change in Adult and Children's Social Care since the introduction of the Care Act 2014*
- *Includes increased scrutiny with CQC including within their inspection regime*
- *This change will apply to Adult Social Care, Children's Services and Education (SEN) Services (16+).*

5.14. LPS will provide protection for people aged 16 and above, who need to be deprived of their liberty in order to enable their care or treatment and who lack the mental capacity to consent to those arrangements. There has been a 14% annual increase nationally in deprivations of liberty since 2014, reflecting the recognition of deprivations in practice alongside the changing needs of the population. With the national trend of people living longer, children surviving birth with more complex needs and numbers with cognitive impairment increasing, there is recognition that the support for this increasing population required revised legislation, statutory duties and management to deliver appropriate support and protection to these clients.

5.15. The final Code of Practice (COP) will be released by DHSC following their response to the public consultation that closed in July 2022. There was considerable feedback on the consultation at a local and regional level and the expectation is that the COP will have been revised for the final version.

Adult Social Care Charging Reforms

5.16. The government has delayed giving all self-funders the right to take advantage of, typically lower, council care home rates and plans to extend the right to have your council arrange your residential care – under section 18(3) of the Care Act 2014 – to all self-funders, from October 2023. It will be applied first to new entrants to care homes, with those already in residential care becoming eligible from April 2025 at the latest.

5.17. Councils and providers raised significant concerns about the feasibility of implementing section 18(3). Section 18(3), of reforms encompass the introduction of an £86,000 cap on the amount people pay for their personal care and a more generous means test for accessing council funded social care, both of which will also come into force in October 2023.

5.18. All three would likely give self-funders an incentive to approach their council to have their needs assessed, whether to benefit from council-funded care through the extended means-test, to start a care account metering their progress towards the cap or to benefit from lower fee rates through section 18(3).

5.19. This would generate the need to carry out an additional 100,000 assessments a year at a time when there is a perceived lack of social workers and practitioners to implement the reforms. Councils and providers also raised concerns about the impact of the change on the care market, given providers' longstanding reliance on the much higher fees paid by self-funders than councils in their business models. The Competition and Markets Authority estimated self-funders paid 41% more, on average, than councils for a place in the same care home.

5.20. Funding to pay councils fair rate is 'inadequate' - as part of its care funding reforms, the government intends to close the fee gap by insisting councils pay providers "a fair cost of care", backed by £1.4bn from 2022-25.However, initial analysis indicates that this fund would not be sufficient for councils to pay providers a fair rate and ensure the sustainability of the market, in the context of section 18(3) bringing down self-funders' fees.

5.21. Further work is being undertaken by the Council in this regard and our planning assumption is that the implementation of these reforms will be fully funded by government with a principle of no detriment.

Support To Refugee Families

5.22. The Bristol Refugee Resettlement Team (previously called the Syrian Resettlement Team) was established in January 2016. Its team provides support to refugee families assessed by the United Nations as particularly vulnerable and therefore eligible for formal resettlement.

5.23. Families have allocated Support Workers who help them to readjust, orientate and understand UK systems and services alongside practical support with day-to-day living, and work towards independence by the end of the support period.

5.24. Supported families live in private sector housing provided by landlords working in partnership with the team.

Afghanistan Resettlement Schemes

5.25. There are two schemes in operation to resettle Afghan families in the UK:

- The Afghan Citizens Resettlement Scheme (ACRS) – This opened on 6 January 2022 and provides vulnerable refugees from Afghanistan and those put at risk by recent events in Afghanistan with a route to safety. The scheme prioritises vulnerable people, including women and girls at risk, and members of minority groups at risk. The government aims to resettle more than 5,000 people in the first year and up to 20,000 over the coming years.

- Afghan Relocations and Assistance Policy (ARAP) - offers eligible current or former Afghan locally employed staff who are assessed to be under serious threat to life priority relocation to the UK. It has already settled thousands of Afghan nationals who have worked with the UK government and their families.

Homes For Ukraine Scheme

5.26. Responding to the crisis in Ukraine the Council's Refugee Resettlement Team is responsible for supporting Ukrainian guests arriving as part of the Homes for Ukraine Scheme. As at August 2022, 498 guests have arrived in Bristol from Ukraine and the team have visited more than 400 guests, including 120 children.

5.27. Ukrainian refugees can live and work in the UK for up to 3 years and access benefits, healthcare, employment, support to make sure a tenancy is well managed and the property is well maintained, and support from a network of community welcome hubs.

5.28. With no sign of the war in Ukraine ending anytime soon, many refugees won't be able to return home and the future support that will be provided by government when the agreed six-month period of their stay ends needs to be confirmed. In particular an increase in the homeless prevention grant to support refugees looking to move into privately rented accommodation and increase the Local Housing Allowance to better reflect the costs of rents within the respective areas.

Early Years Funding Consultation

5.29. In July 2022 the DfE launched a government consultation seeking views on proposed updates to the early years funding formulae and maintained nursery school supplementary funding. Proposals are being considered to update the funding formulae for the early education entitlements for children aged 2, 3 and 4 because these formulae are no longer using the most recent data available. Using up-to-date data will help to ensure the funding system remains fair, effective, and responsive to changing levels of need. The consultation is also proposing reforms to create a fairer distribution of maintained nursery school supplementary funding.

6. Five Year Financial Outlook

The financial outlook provides the indicative funding envelope that facilitates the development of service plans and budgets, that will allocate resources in a manner that will enable effective mitigation of risks and deliver key commitments as outlined in the Council's Corporate Strategy.

General Fund Revenue

6.1. The Budget approved by Council in March 2022 outlined a 5-year balanced position. The net budget over the medium term is inclusive of £34.1 million of savings and efficiencies (pre optimism bias), impacting 2022/23 to 2026/27 financial years. The table below outlines the indicative funding envelope underpinning the Council's medium term budget.

Table 4: Previous Summary of General Fund Revenue Budget for the MTFP Period

2022/23 Budget £m	Description	2023/24 Projection £m	24/25 Projection £m	25/26 Projection £m	26/27 Projection £m
388.795	Base budget Carried Forward	425.033	428.238	436.816	446.746
5.216	Pay Award	4.834	4.955	5.079	5.206
2.000	Pay Contingency				
11.991	General Contract Inflation	8.064	5.209	5.257	5.306
1.800	Health & Social Care Levy - NIC				
21.007	Total Inflationary Pressures	12.898	10.164	10.336	10.512

16.058	Adult Social Care	1.692	1.037	0.885	1.185
6.993	Children and Families	(0.694)	(0.945)	(0.671)	
3.947	Education	0.050	0.436	0.053	0.053
2.300	Homelessness				
0.670	Transport & Regulatory Services				
29.968	**Total Service Pressures**	**1.050**	**0.528**	**0.267**	**1.238**
50.975	**Total Pressures**	**13.946**	**10.692**	**10.603**	**11.750**
-0.271	Pipeline Savings				
-17.866	New Savings	(13.189)	(2.113)	(0.673)	(0.468)
3.400	Contingency	2.445	0.000	0.000	0.000
-14.737	**Total Savings**	**(10.744)**	**(2.113)**	**(0.673)**	**(0.468)**
425.033	**Baseline Costs**	**428.235**	**436.817**	**446.746**	**458.028**
6.017	One-off Costs	-	-	-	-
431.052	**General Fund Budget**	**428.235**	**436,816**	**446,746**	**458,028**
FINANCED BY:					
243.198	Council Tax	252.743	261.212	269.400	277.100
140.745	Business Rates (NNDR)	138.896	138.834	140.033	143.058
3.430	New Homes Bonus	-	-	-	-
37.456	Social Care Grant	36.596	37.123	37.665	38.223
0.814	Lower Tier Services Grant	-	-	-	-
7.032	22/23 Services Grant	-	-	-	-
9.231	General & Earmarked Reserve	2.800	(0.353)	(0.353)	(0.353)
-10.854	Collection Fund Surplus/(Deficit)	(2.800)	-	-	-
431.052	**Funding**	**428.235**	**436.816**	**446.745**	**458.028**
0	**Budget Surplus/(Deficit)**	**0**	**0**	**0**	**0**

6.2. The development of the 2023/24 projections contained the following key assumptions:

- Council Tax increase of 1.99% for general purposes
- No permissible Adult Social Care Precept for 2023/24
- Reforms to business rates retention pilot from 100% to 75%
- Social Care Grants – retained and cash flat with the exception of BCF
- Services Grants – one off 2022/23 only
- New Homes Bonus - legacy payment only 2022/23
- Pay award 2.5% - subject to agreement with trade unions
- 1.25% new Health and Social Care levy
- No general inflation provision for supplies and services budgets
- General inflationary increase of 3% for 2023/24 and 2% from 2024/25 and beyond for fees and charges
- Centrally held 3% inflationary contingency for essentials (utilities, Adult Social Care or unavoidable Private Finance Initiative or other index linked contracts) and 2 % from 2024/25
- Adult Social Care demographic cost pressures of £1.0 million in 2023/24

- Contingency of up to £2.4 million for variations in efficiency propositions or undeliverable savings
- Unallocated General Reserve will be retained at a minimum level of between 5-6% of the net revenue budget at each budget setting period.

6.3. Within this baseline position there remained significant uncertainty in relation to future collection fund losses, one-off grant funding streams, ongoing Covid-19 recovery funding and future local government funding reforms such as fair funding and business rates and inflation. The Council sought to de-risk the budget by only allocating one off or uncertain funding to one off initiatives and pressures.

6.4. The financial outlook is a live document and is under regular revision. The baseline position has been adjusted to reflect the latest information. The assumptions are scenario tested to show a realistic indication of the possible available resources and potential best / worst case to provide a range of outcomes.

General Fund Resources

6.5. 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 £435.7 million (this figure is £7.4 million higher than originally estimated in the budget) and broken down in the table below.

Table 5: Forecast Level of Overall General Fund Resources available to the Council

Core Funding	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
March 2022 Forecast	**428.235**	**437.167**	**447.096**	**458.379**	**458.507**
September 2022 Forecast	435.687	445.314	455.349	466.741	466.979
Changes since March 2022	**7.452**	**8.147**	**8.253**	**8.362**	**8.472**
Of which:					
2021/22 Collection Fund Outturn	**(0.616)**				
Business Rates Multiplier	**2.430**	**2.593**	**2.644**	**2.697**	**2.751**
Additional Grants (One off's)	5.638	2.819	2.819	2.819	2.819
Council Tax Second Home Premium	0.000	2.735	2.790	2.845	2.902
Total Additional Core Funding	**7.452**	**8.147**	**8.253**	**8.362**	**8.472**

6.6. The 2022/23 Finance Settlement outlined the overarching spending limits, indicating that the total envelope of funding available to local government will remain unchanged (cash flat). The following are key assumptions on future government funding, much of which is still uncertain as indicated below.

Collection Fund Surplus / Deficit Outturn

6.7. The actual movement from the council tax and business rates budget estimates for 2021/22 and 2022/23 will impact on the 2023/24 budget as they are included in the collection fund estimates. The 2023/24 budget assumed a £2.8 million deficit on the collection fund. The combination of the 2020/21 Covid losses spread across the subsequent 3 financial years, an adverse variation in the business rates annual Section 31 reconciliation, appeals provision for 2021/22, partially offset by a positive 2021/22 business rates outturn movement has resulting in a forecasted net deficit, of £3.469 million, opening balance on the collection fund (movement of £0.619 million).

Table 6: Breakdown of Carry Forward Deficit from 2021/22 and 2022/23 on Collection Fund

2023/24 Collection Fund Surplus/(Deficit)		Council Tax	Business Rates	Total	One Off Movement
	£m	£m	£m	£m	£m
Original Budget Assumption	2.800				
Forecast Outturn Movement in 22/23		(0.511)	(3.294)	(3.805)	
S31 Movement in 21/22 Outturn			3.335	3.335	
Losses from 20/21 (spread over 3 yrs.)		1.103	2.783	3.886	
Total	**2.800**	**0.592**	**2.824**	**3.416**	**0.616**

Business Rates Multiplier and Settlement Funding

6.8. In line with the principles of business rates retention, business rates are increased by inflation each year. Previously if the multiplier was frozen instead of increasing in line with inflation, the Under-Indexing Multiplier Grant would be increased to ensure that local authorities' shares of income were not impacted. The current high levels of inflation provide an increase in estimated business rates in 2023/24 and over the medium term. It is assumed any compensation for freezing business rates would be capped at circa. 3%, £2.340 million.

Additional One-off Grants

6.9. Since publication of the budget, there has been no new information related to local government funding regarding future or current grant income. At the time of writing the Council is still waiting notification of consultations regarding local government funding reform and the future of key grants deemed one-off, such as New Homes Bonus and the Service Grants.

6.10. The 2022/23 services grants utilising a distribution formula that allocates more of the funding to the most deprived local authorities. As the settlement did not include any longer-term changes for allocating funding, the Services Grant may indicate that the DLUHC intends to channel more grant funding to the most deprived local authorities to support "levelling up" in future years.

6.11. The 2022/23 budget assumed £11.275 million of non-ringfenced grants as one-off. The government has not confirmed the distribution of grant funding in 2023/24 and 2024/25 and in response to the Fair Funding Review and business rates retention this could change the distribution of funding between councils.

6.12. Whilst these grants have not been assumed in the funding available in the budget there is the potential that grants up to these levels may be rolled forward into the 2023/24 settlement. No confirmation of ongoing funding has been given and was not assumed in the budget; however this has now been revised to assume a transitional approach with at least 50% of this funding received in 2023/24 (£5.638 million) and tapering to 25% (£2.819 million) thereafter.

Council Tax Second Home Premium

6.13. The Levelling Up and Regeneration Bill includes proposals that billing authorities will have the power to charge a 100% premium, 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 £2.735 million from 2024/25 for Council Tax for Bristol City Council based on latest CTB1 empty property data, band B council tax rates and 98.5% yield.

Table 7: Council Tax Second Home Premium

	Tax Base CTB1	Band B	Bristol	98.5% Yield £M
Bristol Latest CTB1 figures & Band B	**1,878.00**	**1,734.73**	**1,478.73**	**2.735**

6.14. Subject to the legislation receiving royal ascent the premium could be applied from April 2024 at the earliest and would require local decision by Council as to whether to apply the premium.

6.15. As stated above the funding assumptions contain uncertainty. In the past, changing circumstances have resulted in funding allocations ultimately being less favourable than indicative amounts. In the event that that happens, there may be a need to identify significant additional savings at short notice. This could pose a material risk to the Council's financial resilience, as the achievability risk associated with such savings is likely to be high.

General Fund – Indicative Available Funding

6.16. 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 planning period is £435.7 million (including the additional funding sources outlined below.

Table 8: Indicative Available Funding

2022/23 Budget £m	Indicative Available Funding (Base Case)	2023/24 Projection £m	2024/25 Projection £m	2025/26 Projection £m	2026/27 Projection £m	2027/28 Projection £m
243.198	Council Tax	252.741	261.210	269.400	277.100	277.228
140.745	Business Rates (NNDR)	141.326	141.427	142.675	145.753	145.807
3.430	New Homes Bonus	1.715	0.858	0.858	0.858	0.858
37.456	Social Care Grant	36.596	37.123	37.665	38.223	38.223
0.814	Lower Tier Services Grant	0.407	0.204	0.204	0.204	0.204
7.032	22/23 Services Grant	3.516	1.758	1.758	1.758	1.758
	Council Tax Second Home Premium	-	2.735	2.790	2.845	2.902
9.231	General & Earmarked Reserve	2.800				
(10.854)	Collection Fund Surplus/(Deficit)	(3.416)				
431.052	**Total Indicative Funding**	**435.685**	**445.314**	**455.349**	**466.741**	**466.979**

6.17. The underpinning assumptions in relation to each of the additional core funding categories are outlined in the subsequent sections.

Council Tax

6.18. Council Tax is the main source of locally raised income for the Council – *assuming referendum levels remain at below* 2% for Councils then council tax increases are assumed to be 1.99% each year of the MTFP period. Adult Social Care Precept - since 2016-17, local authorities have been able to increase Council Tax by an additional amount which must be

allocated to fund Adult Social Care only. This is in addition to the usual funding of social care through Council Tax. This applies to London boroughs, county councils, metropolitan districts and unitary authorities.

6.19. No announcement has been made by the Government in this regard in relation to 2023/24 and as this is not currently included in future years MTFP planning assumptions. A 1% increase in core Council Tax or Precept generates c.£ 2.5 million additional income for core services. For planning purposes, this MTFP assumes annual core Council Tax increases of 1.99% and no additional Social Care Precept.

Business Rates

6.20. Since 2017-18 aligned with the West of England (WoE) devolution deal, constituent Unitary Councils in the region have been piloting 100% business rates retention. The Spending Review 2021 confirmed that existing 100% business rates arrangements continued for a further year to 2022/23 only for authorities in similar devolution arrangements. A strong local economy is core to the success of the scheme and aside from the positive social outcomes of a buoyant city, there are direct financial rewards under the rates retention system.

6.21. The government is expected to make a final decision on the future of these arrangements beyond 2022/23 in the autumn alongside a consideration of the funding of Mayoral Combined Authorities. The MTFP is predicated on reforms happening in 2023/24, with the local retention share decreasing from 100% to 75%, and if the multiplier is frozen for 2023/24 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.

New Homes Bonus

6.22. New Homes Bonus reforms have been in the pipeline for a number of years . The consultation covered several options for reforming the programme to provide an incentive which is more focused and targeted on ambitious housing delivery and dovetailed with the wider financial mechanisms, including the infrastructure levy and the Single Housing Infrastructure Fund. It is unclear how the government will incentivise local authorities to deliver additional housing within the new funding regime and as such from 2023/24 a tapered 50% £1.7million reducing to 25% is reflected in the MTFP.

Social Care Grant

6.23. The Social Care specific grants for 2023/24 is expected to be circa. £36.6 million after reversal of additional one off reform grants received in 2022/23 for one year only. In addition to the above the planning assumption is that the Improved Better Care Fund will be uplifted by c.5% mirroring the inflationary increase to the NHS.

6.24. The Health and Social Care Secretary announced £500 million for Adult Social Care this winter, to address delayed discharges from hospital. Further details are awaited on the distribution methodology and associated grant conditions. Whilst this funding is welcome, and will help to address discharge pressures, it falls significantly short of the funding needed to assist social care, and address inflation and workforce challenges faced within the care system.

7. Emerging Financial Pressures

Summary Position

7.1. The budget report to Cabinet in February 2022 outlined a balance position for all 5 years without the utilisation of reserves.

7.2. The emerging pressures identified over the planning period peak at £37.5 million. The underpinning assumptions in relation to each of the categories of emerging pressures are outlined in the subsequent sections.

7.3. This is a baseline position adjusted to incorporate the emerging pressures outlined in this MTFP and reflect the latest government funding assumptions to illustrate a realistic medium case, indication of the possible available resources and remaining budget gap.

7.4. These risk and scenarios will be taken into account when setting the Budget. 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, having an offsetting impact, and providing options for the decisions that will be in the Council's remit.

7.5. 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.

Table 9: Emerging Financial Pressures

Recurrent 2022/23 Pressure	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Recurrent 2022/23 Pressure	25.810	25.810	25.810	25.810	25.810

Corporate Emerging Pressures	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Change in Funding	(7.452)	(8.147)	(8.253)	(8.362)	(8.472)
Pay Award	5.524	7.094	7.616	8.151	8.514
Health & Social Care Levy	(1.801)	(1.801)	(1.801)	(1.801)	(1.801)
Inflation & Levies	8.250	12.359	10.379	10.399	10.420
Capital Financing	0.807	1.770	2.454	2.782	3.064
Total	**5.327**	**11.275**	**10.395**	**11.170**	**11.725**

Total Pressures	31.138	37.085	36.205	36.980	37.535

2022/23 Recurrent Budget Pressures as at Period 5 / Quarter 2

7.6. At period 5 / Quarter 2 2022/23, the Council is forecasting a £11.0 million (2.5%) overspend against the approved General Fund budget (£431.1m), the majority of which is directly attributed to social care, homelessness, inflation including rising energy costs and undelivered savings. See Bristol City Council Quarter 2 2022/23 - Finance Monitoring Report Appendix A for full details. The review undertaken to inform the MTFP refresh has indicated

a range of in year general fund pressures across a number of directorates which are recurrent in nature and to which mitigation activity has been identified on a one-off basis only.

7.7. Mitigations will continue to be explored including collaboration with partners to identify mechanisms to manage the challenges and improve outcomes. As at Quarter 2 £25.8million recurrent or unmitigated pressures are assumed within the general fund.

Table 10: Recurrent 22/23 Budget Pressures

22/23 Service Pressures Carried Forward

	Revised Budget	Total Q1 Potential variance incl risk	Q1 Variance as % Net Budget	P3 Exceptions	P4 Exceptions	P5 Movement	Q2 Variance	Recurrent Pressures / Opportunities	One-Off Pressures / Opportunities	Recurrent Mitigations	One-Off Mitigations	Pressures C/F to 23/24
	£000s	£000s	%	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
People												
Adult Social Care	169,821	4,729	2.8%	1,840	554	(2,245)	**4,878**	4,878		(1,875)	(250)	**3,003**
Children and Families Services	71,738	7,717	10.8%		174	3,501	**11,392**	11,392			(1,200)	**11,392**
Educational Improvement	15,751	2,058	13.1%			45	**2,103**	2,103			(502)	**2,103**
Public Health - General Fund	5,858	0	0.0%			404	**404**	404		(253)		**151**
Total People	**263,168**	**14,503**	**0**	**1,840**	**728**	**1,706**	**18,777**	**18,777**	**0**	**(2,128)**	**(1,952)**	**16,649**
Resources												
Digital Transformation	13,885	1,477	10.6%			230	**1,707**	1,707			(635)	**1,707**
Legal and Democratic Services	14,043	89	0.6%			4	**93**		93		(320)	**0**
Finance	8,473	113	1.3%			(4)	**109**		109		(425)	**0**
HR, Workplace & Organisational Design	4,229	1	0.0%			(66)	**(65)**		(65)		(250)	**0**
Management - Resources	(1,798)	2,125	-113.3%			(202)	**1,923**	1,000	923		(1,015)	**1,000**
Policy, Strategy & Partnerships	4,647	54	1.2%			(16)	**38**		38	(10)		**(10)**
Total Resources	**43,479**	**3,859**	**(1)**	**0**	**0**	**(54)**	**3,805**	**2,707**	**1,098**	**(10)**	**(2,645)**	**2,697**
Growth & Regeneration												
Housing & Landlord Services	17,749	3,814	21.4%			1,337	**5,151**	5,151		(513)	(1,896)	**4,638**
Economy of Place	5,304	(0)	0.0%			(408)	**(408)**		(408)	(520)	(822)	**(520)**
Management of Place	1,256	25	0.1%			281	**306**		306			**0**
Corporate Landlord	7,362	(4)	32.4%			4	**0**		0			**0**
Management - G&R	(410)	0	0.0%			5,667	**5,667**	1,454	4,213			**1,454**
Property, Assets and Infrastructure	30,281	(14)	0.0%			14	**0**		0			**0**
Total Growth & Regeneration	**61,542**	**3,821**	**1**	**0**	**0**	**6,895**	**10,716**	**6,605**	**4,111**	**(1,033)**	**(2,718)**	**5,572**
SERVICE NET EXPENDITURE	**368,189**	**22,183**	**(0)**	**1,840**	**728**	**8,548**	**33,298**	**28,089**	**5,209**	**(3,171)**	**(7,315)**	**24,918**
Total Corporate Items	**50,760**						**0**			(7,925)	(2,077)	**(7,925)**
Earmarked Reserves and Contingencies	**12,103**						**0**			278	(13,088)	**278**
TOTAL REVENUE NET EXPENDITURE	**431,052**	**22,183**	**(0)**	**1,840**	**728**	**8,548**	**33,298**	**28,089**	**5,209**	**(10,818)**	**(22,480)**	**17,271**
RISKS												
Pay Awards - Base Case							**6,352**	6,352				**6,352**
Excess Inflation - Draft							**2,187**	2,187				**2,187**
General Reserves											(8,539)	**0**
	TOTAL GENERAL FUND PRESSURE CARRIED FORWARD						**41,837**	**36,628**	**5,209**	**(10,818)**	**(31,019)**	**25,810**

7.8. The current forecast of the year end revenue position, for the ringfenced accounts at Quarter 2 is a £19.9 million overspend for DSG (4.7%), £2.0 million overspend for the HRA (1.8%), and a balanced position is currently reported in the Public Heath grant

Pay Award

7.9. The 2022/23 annual budget and medium-term plan included a provision for an annual pay award of 2.5%. The current year's pay discussions are still underway 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". The impact of this 'ask' should it be agreed is incorporated within the In year forecast and as general reserves will need to be utilised to meet this unexpected liability this pressure is recurrent.

7.10. The 2023/24 annual pay award assumes 4% noting that every additional 1.0% increase in pay away would result in additional costs of £1.9 million per annum.

Health & Social Care Levy

7.11. The government has announced the cancelling the Health and Social Care Levy – initially introduced via a 1.25 percentage point rise in National Insurance contributions (NICs) - which took effect in April 2022. This will be delivered in two parts:

- The government will reduce National Insurance rates from 6 November 2022, in effect removing the temporary 1.25 percentage point increase for the remainder of the 2022-23 tax year;
- The 1.25% Health and Social Care Levy will not come into force as a separate tax from 6 April 2023 as previously planned.

7.12. The government have indicated that funding for health and social care services will be maintained at the same level as if the Levy was in place. Whilst the levy applicable to the public sector was supported by a grant uplift the MTFP planning assumptions is that the funding is unlikely to be clawed back. This reversal has therefore been assumed in the and like other government funding streams present a risk that will need to be closely monitored.

Contractual Inflation & Levies

7.13. General inflation assumption of 5% is assumed in the MTFP planning assumptions. Services are expected to absorb annual inflationary pressures within existing budgets and historically a corporate inflation contingency is included in each year, to allow for material contractual inflationary cost pressures and levies which cannot be managed within a service.

7.14. The MTFP has modelled a range of scenarios for specific areas where either there are contract commitments or evidenced industry specific inflationary pressures, such as energy, accommodation, transport, waste disposal and social care.

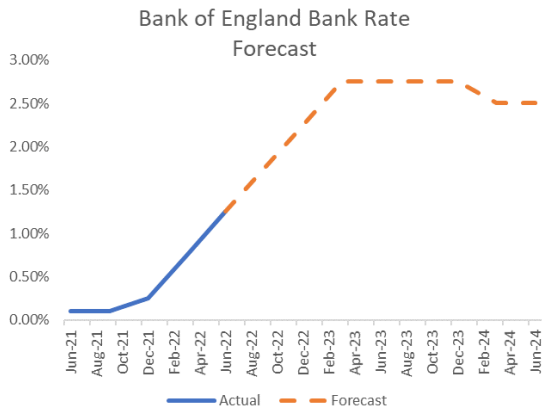
7.15. Whilst it is worthwhile stating that no decisions have been made in this regard, considering this change a further pressure of £8.2 million could emerge in 2023/24 and £12.3 million in 2024/25 above what was already assumed.

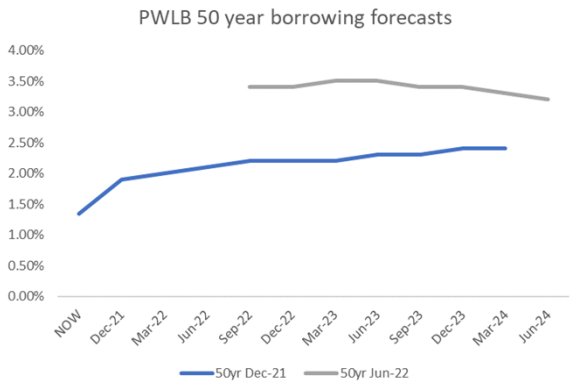
Capital Financing and Interest Rates

7.16. As noted above Bank of England Base Rate is now 2.25%. This is an increase of 1.5% from when the budget was set in March 2022.

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

Table 11: Forecasts for Bank of England base rates and impact of recent changes in long-term borrowing rates





Service Risks

Adult Social Care Risks

7.18. Adult Social Care continues to face significant financial challenges in 2022/23 in relation to service demand and inflationary cost pressures. Adult purchasing budgets are currently forecasting a risk adverse overspend of £8.2 million (5.9%) against a budget of £144.6 million.

7.19. Significant market pressures are being experienced by social care providers in relation to financial and business sustainability and workforce challenges, as they try to recruit and retain sufficient volume of workforce to meet demand. Other emerging pressures include those arising from demographic changes, increased care and support costs relating to young people preparing for adulthood, pressures from increased costs and usage of the community equipment service and additional costs arising from the exempt accommodation subsidy loss.

Children and Families Risks

7.20. Placement cost pressures:

- Placements continue to be the area of most concern and it is expected that this budget will be £10.0m overspent by the end of the financial year. The placements overspend is driven by a combination of a steady decline in the number of placements available in the external market alongside a growth in the Children in Care population (Care Review and CMA); a growing number of children with additional and/or complex needs (BCC EHC referral rates) and a rise in the complexity of some cases which is resulting in placement breakdowns and children needing to be moved to more expensive arrangements; delays in transferring eighteen-year-olds onto the housing pathway due to a shortage of housing and an insufficient number of foster carers. Exit strategies are still to be identified for activities with one-off funding. These include Families in Focus and PAUSE.

7.21. Other pressures within the Service include:

- £0.5 million Asylum Seekers' costs where families have no recourse to public funds Referrals to this service have increased by 50% and 93 families are being supported with accommodation and/or weekly subsistence payments.

- £0.7 million on staffing costs attributable to temporarily filling Social Worker vacancies and several senior posts with agency staff.

7.22. The Children's Service is planning a Transformation Programme (subject to approval) which is intended to contribute to a balanced budget by enhancing early help services, improving quality of practice, developing the workforce, improving governance and quality assurance, implementing a new model for residential placements, and working more effectively with partners.

Education & Skills Service Risks

7.23. Education General fund (Division 16) is currently forecasting an in-year overspend of £1.6 million against its budget of £15.8 million. This is mainly driven by cost pressures in Home To Schools Transport driven by continued rise in children have EHC Plans (at around 10% per year) and the fact that more children needs Out of Local Authorities placements and having to drive further distance plus cost of living pressure (fuel price and drivers availability). HTST budget is currently estimating £1.6 million overspend against its £7.8 million budget. this is likely to continue as number of EHC plan requests continue to rise and national inflationary pressures. In addition, the increasing demand for SEN assessments and annual reviews added extra pressure circa £1m to current SEN team and legal support costs. In addition to these, taking into consideration of other new statutory duties announced in the White paper and some current year saving targets is proven to be challenging and non-recurring, the Service is estimating a total cost pressure of near £4 million (£3.7m) in 2023/24 if no government funding received.

Growth & Regeneration Risks

Ash Dieback

7.24. Across Europe and across the UK, landowners and citizens are facing the impacts and challenges of Ash Dieback and its growing impact on the ash tree population. Ash Dieback is a highly destructive disease of ash trees (Fraxinus species). It is caused by a fungus named Hymenoscyphus fraxineus which is of eastern Asian origin and infects trees via windblown spores. The Forestry Commission has estimated that as many as 85% of ash trees in the UK will be killed by the disease, recommending that all major landowners develop a plan of action to deal with its effects.

7.25. During the summer of 2021 the council carried out an audit of its ash trees in locations where the public may be at risk if trees or branches fail. Over 500 ha have been surveyed with one third – 10,000 trees – found to be in a condition where urgent action is required to maintain public safety, with felling the primary, recommended approach. Some trees may have their canopy reduced or be monolithed (left as a standing stem) rather than be felled if of particular maturity or landscape interest, but these will be small in number. The remaining 20,000 surveyed trees in these locations will continue to be monitored in 2022 and beyond.

7.26. The cost of removing affected trees, reducing their canopy or monolithing them will be considerable – and estimates are being compiled for the 10,000 trees significantly affected by the disease identified in areas of high public use and recommended for felling and funds may be required when results from the survey extension are known. Costs will be estimated using the council's current tree management contract rates, applying a conventional felling method, carrying out a sample audit of sites to better identify real costs and a consideration of current market conditions.

Homelessness

7.27. The impact of the pandemic has increased homelessness in Bristol. The number of households in temporary accommodation is 59% higher than before the pandemic. This has created an overspend due to the increase in Housing Benefit subsidy loss.

7.28. In addition, most of the increase in temporary accommodation is due to higher number of families placed in temporary accommodation. Family temporary accommodation placements has increased by 26% in the last 12 months due to limited availability of affordable properties. This has resulted in the use of more expensive providers contributing to the increased subsidy loss.

7.29. While approximately 1,028 people have been moved on into settled accommodation in 2021/22, the average number of households in temporary accommodation is approximately 1,156 in 2022/23, of which 815 is attributable to the £5 million subsidy loss pressure.

7.30. The pressure in 2022/23 is forecast to be circa 50% increase when compared to 2021/22. The trend of increasing homelessness presentation is expected to continue into 2023/24 due to the impact of cost of living and wider economic conditions, including higher interest rate. The current economic climate could also have an impact on the rent collection rates and in increases in rent arrears in temporary accommodation.

7.31. The national picture on homelessness at the end of the 1st quarter of 2022/23 reported an increase of 11%. With more people in temporary accommodation, higher costs and less supply available to prevent homelessness, this will create additional financial pressures on ongoing budgets.

Savings at Risk

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

7.33. The total savings delivery target for 2022/23 is £24.4 million.

7.34. It is currently assessed that £8.7 million of these targeted savings are at risk of not being delivered in the planned way. The current gap in savings programme delivery is largely attributed to adult and children's social care and is currently reported either within service forecasts or within risk and opportunity registers.

7.35. The total savings delivery target for 2023/24 is £13.2 million (excluding any carry forward of prior year undelivered savings).

7.36. The Council created a total savings contingency of £6.2 million (legacy and 2022/23) for variation and non-delivery of savings which were in their infancy and £3.6 million of this has been earmarked for these pressures at Quarter 2. This leaves £2.6 million contingency for the remaining financial years period. It should be noted that this is prior to any further in year mitigation savings identified for 2022/23 and or beyond.

Corporate Expenditure

Pension Changes

7.37. The Fund is currently carrying out the next pension triennial review, effective from 1 April 2023. The Council is currently almost 100% fully funded. The review will recommend reducing the deficit recovery period from 15 to 12 years. It will then remain at 12 years.

7.38. There are potential inflationary pressures affecting contribution rates, but also investment opportunities for the Pension Fund in a higher interest rate environment. Consequently, we have assumed no anticipated pressures or opportunities arising as a direct result of the 2022 valuation results.

Capital Financing

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

7.40. The maximum affordable level established for the cost of capital financing for the General Fund element of the capital programme, is 10% of general fund net revenue budget over the medium to long term. The current forecast level of the programme is 9.9% by 2026/27. If the Council opted to utilise this headroom of 10%, this would equate to an extra £10 million of borrowing with an estimated capital financing revenue budget cost of £0.5million.

7.41. In reflecting on the capital trends and revenue forecast, the Council is proposing to reprofile its capital programme activity for 2023/24 to 2027/28 to more accurately reflect the level of work it has capacity to deliver. In recent years the average annual programme, prior to the addition of slippage from the previous year, has been budgeted at around £260m. Within the same time frame, the Council has only had capacity to deliver an annual programme of no greater than £167m.

7.42. In 2022/23 the budget allocated to the programme was £333.9 million (including schemes carried forward from prior year) and the forecast outturn as at period 5 is £252.2 million. A mid-year capital programme budget reset is proposed based on the period 5 forecast outturn position which will ensure that the budget required to finance the capital (interest & debt repayment) will reflect the Council's performance rather than an aspirational delivery position. It is therefore not anticipated the general fund borrowing headroom will be utilised. The Council may identify other funding sources, including grants and capital receipts, to finance additional capital expenditure and the MTFP also assumes that the Council will continue the use the flexibility provided by government to use capital receipts to fund the revenue cost of transformation.

7.43. The feasibility fund is assumed in the capital strategy to assist in developing schemes with sufficient robustness/certainty before they enter the Development Pool. The fund is created from any reduction generated in the current capital financing budget and therefore the level of the fund would be established each year, and be aligned to the volume and complexity of schemes at full mandate stage.

Ring Fenced Funds – Indicative Funding Available

Public Health (PH) Grant

7.44. Public health services are funded by a ringfenced grant to the Council which for 2022/23 was £34.6 million. 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. The Council will continue to make sure that the increased cost of services are contained within the envelope provided, whilst recognising that this is an increasing challenge due to inflationary pressures.

7.45. Within the Council's earmarked reserve is a Public Health ring fenced reserve of £3.8 million (as of 27 September 2022). There is a potential forecast draw down of £0.5m in the current year leaving a balance of £3.3m. This balance will be assumed in plans to be developed over the medium term and provide a small buffer for unexpected adverse grant allocations.

Dedicated Schools Grant (DSG)

7.46. A cumulative deficit of £44.5 million is forecast at the close of 2022/23. This is mainly due to increased demand for Special Educational Needs provision within the HNB. The main cost driver is the rise in demand for Education, Health and Care plans (EHCPs) following national reforms from 2014, increasing complexity of children's needs and the rising costs of out of authority placements. Demand continues to increase and despite additional funding from the Department for Education (DfE), it has not been possible to recover the deficit which began to accelerate in 2019/20. With the support from Bristol Schools Forum, and through delivering evolving Education Transformation Programme, the Education Service has been on the journey of improving experiences and outcomes of children and young people. The High Needs recovery proposals has been developed (subject to consultation) and the LA has recently participated in DfE's Delivering Better Value for SEND programme with the aim to bring DSG to a sustainable footing.

7.47. 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. 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 However, increasing inflation will clearly erode how much this additional funding is in terms of a real terms increase and will address inflationary pressures rather than some of the funding concerns the spending review initially set out to address.

7.48. The Dedicated Schools Grant comprises four blocks: Schools, High Needs, Central School Services and Early Years. 2022/23 was the fifth year of the National Funding Formula (NFF) for schools, high needs and central school services. With 2023-2024 intended to be the first year of transition to a full and hard NFF, the Schools Forum will be consulted ahead of submitting the final local formula for 2023-34 to the ESFA, in January 2023. The early year's block of the DSG is determined by the separate national formula for early years.

7.49. On 19 July, the Minister of State for School Standards made a written statement setting out information on the schools, high needs and central school services national funding formulae (NFF) for 2023 to 2024. Final allocations and high needs block allocations will be published in December and we estimate that the likely level of funding for Bristol in 2023/24 will be £405.5 million (excluding early years block).

7.50. The provisional allocation for Bristol (excluding early years block) is outlined in Table 8 below and it is important to note that the indicative figures provided ignore any changes in pupil

numbers and characteristics and reflects the indicative allocations before any movements between blocks.

Table 12: DSG - Indicative Available Funding and Prior Year Comparator

Comparative allocations	2023/24 Indicative DSG allocation		Comparative 2022/23 DSG allocation		£ change	% change
	£m		£m		£m	
Schools Block excl. growth	319.860		304.311		+15.549	+5.1%
Central School Services Block	2.700		2.742		-0.042	-1.5%
High Needs Block	82.979		78.607		+4.372	+5.6%
Total	**405.539**		**385.660**		**+19.879**	**+5.2%**
Growth funding in school block	No data		1.881			
Early Years	No data		35.988			-

7.51. The underpinning assumption in relation to each of the funding blocks is as follows:

- The announcement has stated that funding for mainstream schools through the National Funding Formula will increase by 1.9% overall, as compared to 2022/23, and that all LAs will receive at least a 5% increase on funding, with some LAs receiving up to 7% increase.

- The provisional Schools Block allocation for Bristol has been published at £319.86 million, before growth funding, with actual allocations expected to be published in December 2022.

- The provisional High Needs Block allocation for Bristol has been published at £82.979 million (a £4.4m increase from 2022/23), with actual allocations expected to be published in December 2022.

- The Central Schools Services Block provides funding for the ongoing responsibilities that local authorities continue to have for all schools. As has been practice in recent years, funding for historic commitments within this block will be reduced by a further 20% for 2023-2024. The provisional Central School Services Block allocation for Bristol has been published at £2.700 million, with actual allocations expected to be published in December 2022. This is an overall reduction of £42k reflecting a £119k reduction in the historical commitments' allocation, partially offset by an increase (+£77k) in funding for ongoing responsibilities allocation. The Central School Services Block provides funding for the statutory duties the Council holds for both maintained schools and academies. The Council must seek Schools Forum approval for central services spend. The 2023/24 allocation has been indicated at £2.7 million. This is a 1.5% decrease on the prior year allocation. The reduction is primarily attributed to the funding for historic commitments (such as for the Prudential Borrowing initiative that ceased in 2017/18) where it has been an aim of ESFA to withdraw this funding over time.

- These provisional allocations are based on current pupil data. Final allocations of the 2022/23 funding will use information from the autumn 2022 census are expected to be issued in December 2022.

- For 2023/24 we will continue to set a local school funding formula. The government has stated that 2023/24 will be the first year of transition to hard national funding formula, and that LAs will be restricted in their options in setting the local formula for 2023/2024.

- Minimum funding levels per pupil are increasing again, setting a floor as to the minimum each pupil can attract into a school based upon key stage.

- The Minimum Funding Guarantee (MFG) is a protection for schools against significant year-on-year changes in pupil led funding and must be set at between +0.5% and +2%. An MFG of +0.5% was applied for 2022/23, For 2023/24 the MFG has to be set in the range 0.0% to 0.5%. Schools are consulted and the Schools Forum, after consideration of the feedback, will need to discuss and agree what MFG rate is set for 2023/24.

- Funding previously provided via the teachers' pay grant and teachers' pensions employer contributions grant were incorporated into the School Block funding (for mainstream schools), and into the High Needs Block (for special schools) in 2022/23 and this approach continues for 2023/24.

- Block Transfers - local authorities will continue to be able to transfer up to 0.5% of their school's block to other blocks of the DSG, with Schools Forum approval. In 2022/23 0.5% was transferred from the school's block to high needs block, providing £1.5 million, ring-fenced to support the Education Transformation Programme. If up to 0.5% of the indicative schools block is transferred for 2022/23 this would equate to £1.5 million.

- The indicative High Needs Block allocations to Bristol is £83.0 million, an indicative increase of £4.4 million (5.6%) over 2022/23's allocation of £78.6 million. This needs to be considered in the context that high needs block is experiencing cost pressures in excess of funding, of c.£19.9 million and carrying a forecast accumulated deficit at the end of 2022/23 of c.£44.5 million.

- Developing and sustaining effective local system-level approaches to supporting children and young people with SEND is essential. The Education Transformation Programme is working with partners to develop the necessary steps to provide the right level of support, meet needs, ensure effective use of local resources and achieve good long-term outcomes for children and young people with SEND, in what is considered a highly challenging context.

- The Council will need to consider the resourcing of related areas within the General Fund, such as increase in levels of statutory assessments and transport and cannot transfer funding into the DSG without ministerial approval. If up to 0.5% of the indicative schools block is transferred for 2023/24 this would equate to £1.5 million, to contribute to the continuation of the programme over the medium term. Transferring more than 0.5% of the schools block or any funding from the General Fund would require Secretary of State approval.

- The early years sector is experiencing significant funding pressures which if not addressed will impact on their capacity to support the most vulnerable children and potential missed early intervention opportunities. Lack of adequate funding for the sector will have knock-on effects for primary and special schools as children move on to the next phase.

7.52. In all the above examples we have assumed no changes in pupil numbers or composition. A consultation is underway with schools and the outcome will be reported to the Schools Forum. The final authority proforma tool (APT) containing the actual figures and basis for 2023/24 funding is expected to be issued in December 2022.

Housing Revenue Account (HRA)

7.53. The Housing Revenue Account (HRA) is a ring-fenced account containing the income and expenditure relating to the Council's landlord duties in respect of circa 28,600 dwelling including those held by leaseholders. This means the HRA does not receive any subsidy from the government or from Council Tax and surpluses or deficits generated each year would be transferred to / from the HRA general reserve. The HRA is not allowed to subsidise the General Fund and legislation sets out those items that can be charged to the account.

7.54. The HRA budget is prepared each year in accordance with the requirement to set a 30-year business plan. The business plan is reviewed annually allowing for horizon-scanning and mitigation of risks in the short, medium & long term, ensuring there is sufficient resources to meet future operational commitments.

7.55. The HRA activities are a key element in delivering the Council's priorities in the Corporate Strategy. The key areas of expenditure are the delivery of housing management services plus repairing, maintaining & improving existing housing stock. Provision is made to ensure compliance with legislation and national policy, including meeting decent homes standards and building & safety regulations.

7.56. The rent standard currently allows rents to increase by 1% above inflation (CPI + 1%). Given inflation is expected to reach around 10% in the third quarter of 2022, landlords are unlikely to implement this scale of increase in 2023/24 because of tenants' affordability constraints.

7.57. Considering these exceptional challenges, the Department of Levelling Up Housing and Community (DLUHC) is consulting on a temporary amendment to the CPI plus 1 percent policy for next year (2023-24). This is directing Registered Providers (RP) to consider setting rents capped at 5 percent or CPI + 1%, whichever is lower.

7.58. The government is also seeking views on the option of setting the ceiling at 3%, 5% and 7%. It is also open to proposals from RPs at other percentage upper limits.

7.59. Variations in the rental income stream and decisions regarding annual rent setting will impact on the level of resourcing available. The economic crisis and rising cost of living has exacerbated the likelihood of non-collection of rents and may, as a consequence result in elevated levels of rent arrears and bad debt. The increased costs for goods and services resulting from the inflationary pressures would have to be met by rents and by modifying service delivery.

7.60. The forecasted dwelling rental charges and other income is estimated to generate £125.9 million in 2022/23 for the delivery of HRA activities. The high levels of uncertainty around rising interest rates and inflation pose a financial risk to the HRA, in particular, energy, insurance, construction labour & material cost inflation as well as the cost of borrowing.

7.61. The opening balance on the HRA reserve on 1 April 2022 was £115.1 million. This comprises £102.2 HRA general reserve plus £12.9m HRA major repairs reserve. At Period 5 an adverse variance of £2 million has been forecast in the revenue account. In addition to the reserve, the Council can make use of a blended financing model, for example this could include

grants, borrowing, developer contributions, capital and RTB receipts, revenue contributions to capital outlay (RCCO) to fund its capital programmes.

7.62. The funding will be appropriately risk assessed and based on affordability, sustainability, and optimisation of resources, profiled to the programmes within the plan. A minimum balance must be retained in the HRA reserve to cover at least 1 year's interest cost and a clear strategy outlined in approved plans for repaying borrowing above the level of the historic HRA debt cap.

7.63. As part of the budget setting process, the influences outlined above will be appraised and continuously monitored.

New Priority Investments / Reserves

7.64. The MTFP is underpinned by the key strategic priorities for the Council and will need to ensure that resources are aligned with their delivery. The intent of the MTFP is to set out the financial implications for the Council and consider the Corporate Strategy, objectives, and policies against the resources projected to be available. This then provides a basis for service decision making.

7.65. Any update of the MTFP needs to be cognisant of the legacy impact of the pandemic and the need to maintain the integrity of the Council's financial position and future sustainability, to support our communities.

7.66. These strategic priorities will sit alongside our continued efforts to build and embed our One Council approach, with a sustainable platform that will drive Council activity in the years ahead. Within each of the 7 themes are a range of projects and proposals, which reflect the scale of the Council's ambition for the area and critically, each has an important part to play in managing future demand on Council Services.

7.67. One of the aims of the MTFP will be to deliver budgets over the medium term period that shift our existing spend towards the priorities outlined in the strategy. In the current climate a phased approach may need to be adopted to ensure services are sustainable and can plan appropriately for change.

7.68. The transition can begin by several means, including:

- Articulation of the vision with key local regional and sub-regional partners, with government and incorporate within our bids for external funding
- Collaboration with partners in the pursuit of mutual advantage
- Provide the platform for leveraging the experience and capability and allowing community and private sector to deliver for local government, and vice versa
- Aligning the service and budget planning timetables, as well as aligning finance and performance reporting.
- Change Programme and delivery resource: enhancing the investment in the transformation delivery to prioritise project resource that can respond to the major challenges and opportunities that the Council will face through the period of this plan
- Establish via our annual budget processes the feasibility fund and advance scheme design as outlined in the Capital Strategy for scheme development
- Utilisation of specified earmarked reserves such as climate and ecological reserves to pilot prototype or develop new and innovative approaches.

7.69. The strategic and risk framework requires appropriate oversight and governance of the achievement of the Council Priorities and to ensure it is delivered through effective programme management. Where performance indicators are not on target, corrective action will be required.

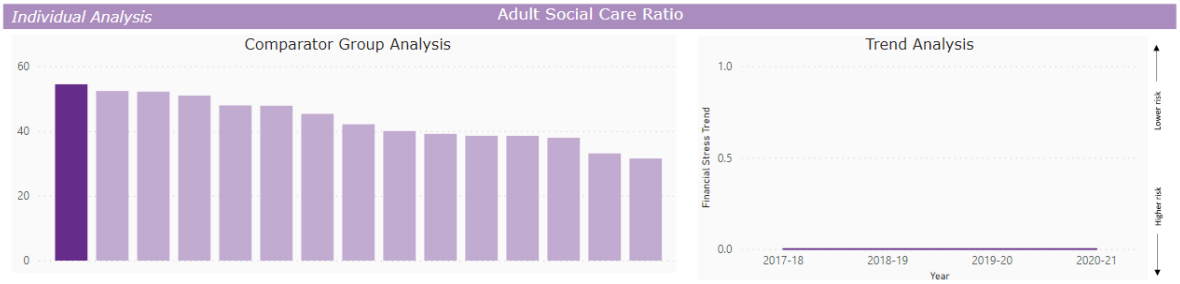
8. Financial Health Indicators

8.1. In developing the budget strategy for 2023/24, and the medium term, the Council has been reflective of the outcomes of the CIPFA Financial Resilience Index and other financial benchmarking. In determining the medium term budget strategy it is essential to ensure the Council manages its financial resilience to meet unforeseen demands on services.

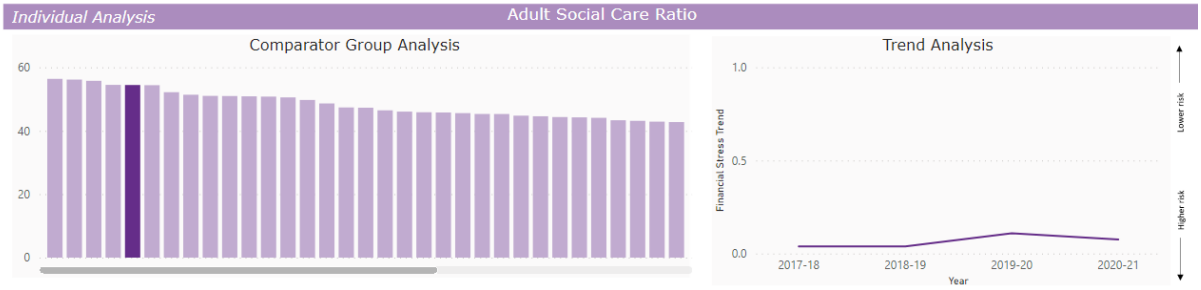
8.2. In that respect the three areas, as set out below, are particularly pertinent and have been used to shape the budget strategy and MTFP.

Adult Social Care Ratio

Nearest Neighbours



Unitary Authorities

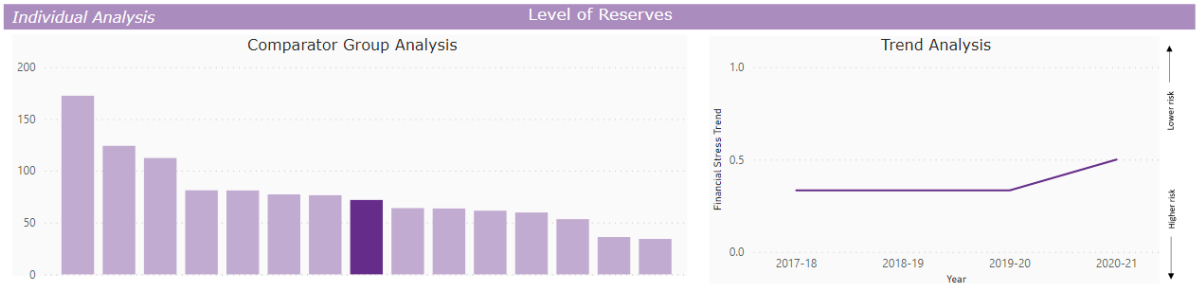


8.3. The highest area of risk to the financial resilience of the Council compared to other similar authorities is the proportion of budget spent on adult social care services as this is seen as an inflexible cost which is difficult to reduce over short term and impacts on the Council's ability to respond with agility to changing demands.

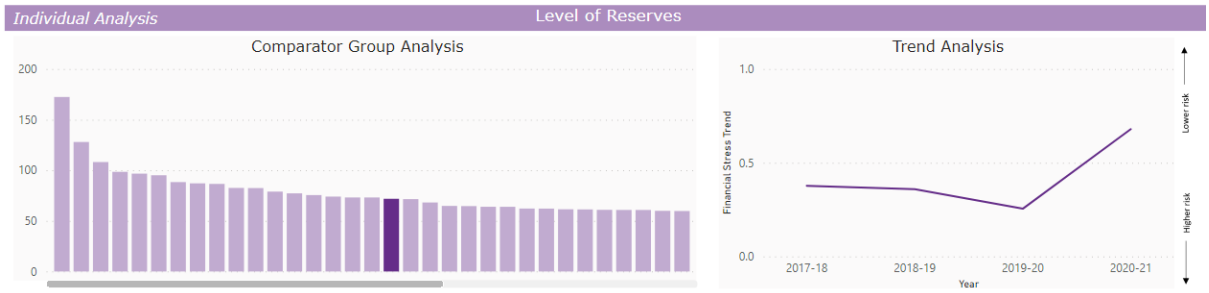
Level of Reserves

8.4. This is a ratio of the current level of reserves (total useable excluding Public Health and Schools) to the Council's net revenue expenditure. Undertaking this analysis as a percentage of net revenue expenditure ensures the relative size of the Council is considered.

Nearest Neighbours



Unitary Authorities



8.5. The benchmarking analysis above shows that the Council currently has useable reserve of 71.81% and has improved significantly in comparison to other unitary authorities. The analysis when compared to nearest neighbours whilst not quite as stark, still shows an improving trend in 2020/21. It should be noted that the 2020/21 position includes reserves relating to the Covid response, and each council in the comparison will have utilised varying proportions of their Covid funding in 2020/21, whilst other councils will have carried forward a greater proportion to manage the Covid response in 2021/22 and beyond.

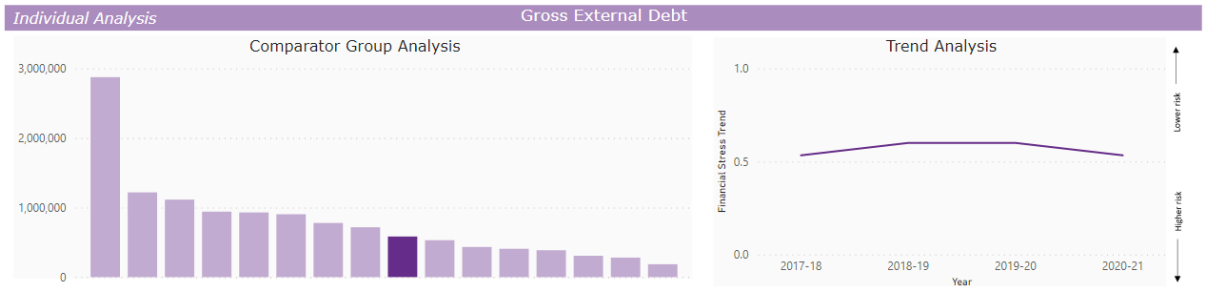
8.6. This indicator is extremely important in terms of the Council's ability to respond to extreme shocks, such as that recently experienced.

8.7. The Council's need for greater resilience (as above) and the other risk emerging from the MTFP, need to be considered in the annual refresh of the reserve policy.

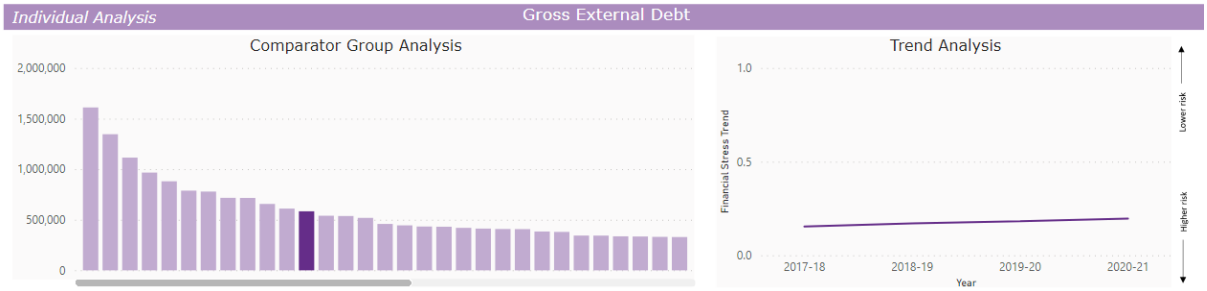
Gross External Debt

8.8. This indicates the Gross External Debt held by the Council and is used to finance the Council's borrowing liability known as its Capital Financing Requirement (CFR). It is a requirement of the CIPFA Prudential Code to set a CFR and link into the prudential indicators agreed by Council as part of its annual Treasury Management Strategy.

Nearest Neighbours



Unitary Authorities



8.9. The Council's CFR at 31 March 2021 was £886 million. It was financed by Gross External Debt of £584 million and Internal Borrowing (use of the Council's surplus cash resources) of £302 million.

8.10. Given the current position the intention is to retain a mid-point of all upper tier authorities as a percentage of net revenue expenditure and seek to leverage external funding and grants to provide the headroom and parameters for the additional amounts required to deliver the wider Corporate Strategy ambitions. As such the Capital Strategy approved by Council in December 2021 includes the following indicators limiting exposure:

- General Fund - capital financing costs to no more than 10% of net revenue budget
- Loans to subsidiary companies (with risks weighted provisions) - are limited to 10% of the CFR or £70 million, whichever is lower
- HRA - an interest cover ratio and coverage in reserves, which will support service delivery, housing and regeneration schemes, such as those being delivered to increase housing stock and the schemes being delivered by the subsidiary companies, over the next ten years.

8.11. Further enhancements to these affordability metrics are proposed in the Capital Strategy being considered in this report. These enhancements include providing greater clarity on the level of liability exposure (including loans) to subsidiary companies and a requirement for more transparency in decision making on the level of net present value within capital projects, including exceptions to re-invest surplus net present value generated into expenditure which have positive environmental and social impacts. The Council will be requested to endorse the new affordability approach as part of the development of the 2023/24 Capital Strategy and Treasury Management Strategy.

9. Budget Strategy

9.1. The Council has experienced a period of sustained increase in demand resulting from current global market factors and for some of the key services it provides to the most vulnerable members of the community, particularly within adult and children's social care. There is no sign of the growth in these areas reducing in the foreseeable future and based on the current evidence it is more likely that growth will continue in the period covered by this plan.

9.2. As at September 2022, we estimate in our MTFP a peak funding gap of £31.1 million. With such a significant challenge, our Council budgets will not be able to be balanced without additional funding/making greater efficiencies and/or transformation projects.

9.3. Balancing the need to be financially sustainable and deliver value for money to residents, the Council will need to deliver efficiency savings to manage growing cost pressures and

maintain service levels. The scale of the efficiency will be dependent on the income received by the Council over the coming years, which at this point remains uncertain.

9.4. There are many different scenarios for bridging the gap and the main options for mitigating the financial impacts outlined in this MTFP include:

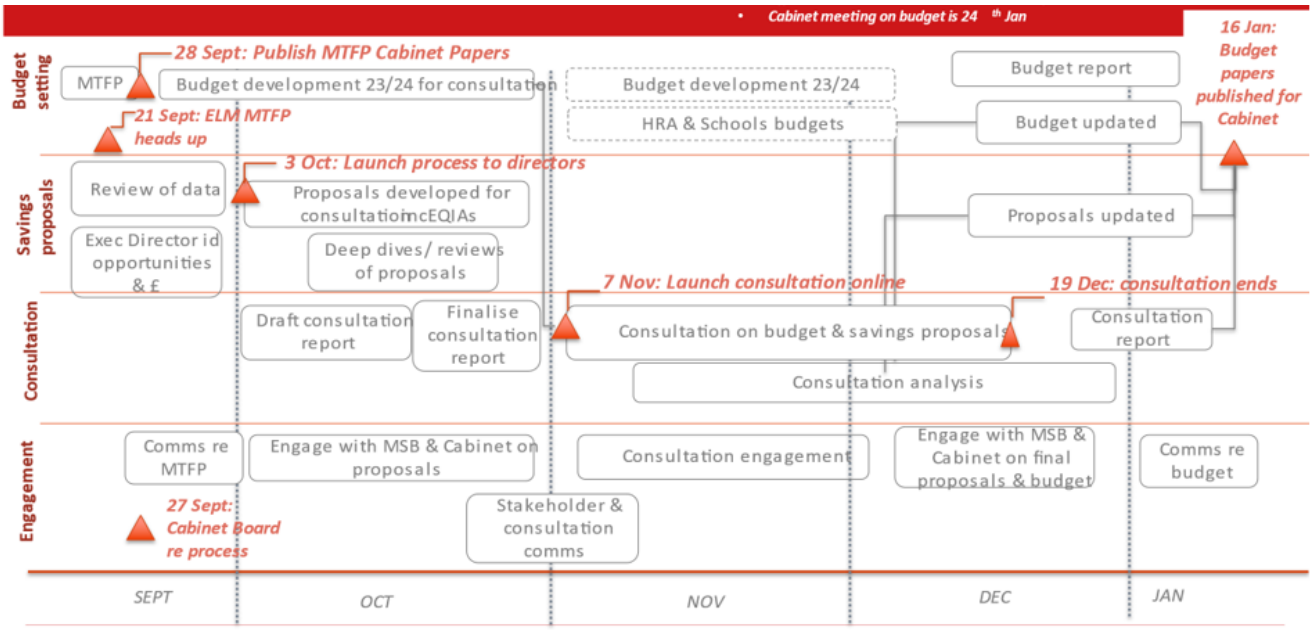
- We will ensure resources are aligned with the emerging Corporate Strategy priorities.
- Ensuring that all funding bids made can be fully justified by an identifiable need and can be linked to the strategic priorities and objectives of the Council.
- We will continue to work internally and externally with our partners locally, regionally and nationally to refine forecasts, assumptions, gather evidence and where appropriate jointly commission to achieve scale in our response and drive value.
- We will assess and challenge the value for money (economy, efficiency and effectiveness) provided by each service through the service & financial planning process.
- We will be prudent, taking into account the exceptional market conditions, by building flexibility into future contracting plans to facilitate best value.
- We will ensure that, in the interests of sustainability, exit and forward strategies are considered for projects and programmes receiving one-off or external funding and these strategies are developed for those areas currently in the budget.
- We will seek to ensure that new burdens are appropriately costed, funded and that mechanisms are in place to make representation where required and prevent permanent commissioning against short term resources.
- We will adopt a multi-faceted approach, collective leadership and genuine collaboration across the Council and finance, to have the right resources working effectively to manage the pressures and identify suitable and innovative solutions to meet need and manage the associated spending, in a sustainable manner.
- We will remain resilient through uncertainty, maintaining an adequate level of reserves, regularly review their planned use, redirection and allocation to support delivery of our priorities and management of our risks and where the funds are still required, they will be subsequently replenished.
- We will continue national and regional monitoring and lobbying, to encourage the government to provide funding to meet the cost of new burdens and new legislative or regulatory requirements.
- We will on an ongoing basis review the capital programme financing and debt portfolio, with a particular emphasis on future year's commitments that could be financed or alternatively refinanced by alternative sources.
- We will ensure a long-term sustainable view is taken of our investments and that appropriate risk analyses are used when considering new investments.
- We will undertake detailed deep dives on service areas with material emerging pressures and deficit and consider the robustness and likely cashable benefit realisation from the associated recovery and transformation plans.

- We will deliver proposals for consideration to reduce the Council's net expenditure by at least the indicative budget gap, for consideration as part of the budget for 2023/24.

Budget Timetable

9.5. Outlined below is the indicative timetable for the development of the 2023/24 Annual Budget for the General Fund including Public Health, Housing Revenue Account, Dedicated Schools Grant and the Council's 2023/24 – 2027/28 Capital Programme. Please note that in some instances dates are indicative or to be confirmed and as such may be subject to change.

Table 13: Budget Timetable Latest Timeline



10. Reserves Policy

An essential part of the financial planning process of the Council is a robust policy on the level and nature of reserves.

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.

10.1. Section 25 of the Local Government Act (Part II) 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of the Councils financial reserves when setting a Medium Term Financial Plan and the budget requirement as part of the annual budget report. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.

10.2. The Council continues to face a shortfall in funding compared to spending demands and must annually review its priorities in order to address the shortfall. Unlike central government,

local authorities cannot borrow to finance day-to-day spending, and so they must either operate to agreed cash limits or seek approval to draw down reserves to ensure that their annual spending does not exceed their annual revenue budget.

10.3. Reserves are one-off monies and can only be spent once. The Council aims to avoid using reserves to meet ongoing financial commitments, other than as part of a sustainable budget plan. One of the Council's financial principles is to stop the use of one-off funding to support the base budget. The Council has to balance the opportunity cost of holding reserves in terms of the impact upon Council Tax against the importance of internal borrowing, interest earning and planning for long-term financial resilience.

10.4. This practice note sets out the Council's policy for the management and governance of its financial reserves, including:

- The General Fund Reserves
- Earmarked Reserves
- Housing Revenue Account reserves
- Schools Reserves

10.5. The report covers the principles for when reserves will be held, the appropriate categories for reserves, the Section 151 recommended minimum levels of reserves and criteria for the release of reserves.

Summary

10.6. Reserves are an important part of the Council's financial strategy and are held to create long-term financial resilience and stability. All movements in reserves will continue to require Section 151 Officer approval and are subject to a quarterly review. The outcomes of this quarterly review will then be presented to Cabinet as part of the quarterly budget monitoring reports and are included within the annual MTFP.

10.7. As at 1 April 2022, the Councils reserves were as follows:

Table 14: 1 April 2022: Reserves

Reserves	**1 April 2022/23**
General Fund:	**£m**
• General Reserve	(33.062)
• Earmarked Reserves	(180.086)
HRA Reserves	
• HRA General Reserve	(102.231)
• HRA Major Repairs Reserve	(12.9)
Schools	
• **DSG Reserve**	24.650
• Schools Reserve	(5.604)
Other Ringfenced	
• Public Health Reserve	(3.837)
TOTAL	**(313.070)**

10.8. Reserves enable the Council to manage its business and its change agenda without undue impact on the annual Council Tax or Tenants, and they are a key element of ensuring the

Council's strong financial standing and resilience over the medium to long-term. The Council operates in an uncertain and volatile environment and its main sources of funding face an uncertain future. The Council therefore holds earmarked reserves and a General Fund reserve in order to mitigate against future financial liabilities and risks.

10.9. The Council is an extremely complex organisation with a wide range and diversity of activities and assets, interests and liabilities. By their nature many of the risks cannot be quantified and in this current challenging financial climate it is essential that the Council maintains adequate levels of reserves.

General Fund

10.10. The Council's earmarked reserves are currently categorised and reported in the MTFP and Budget in the following way:

Table 15: Description of Reserve Types

Reserve Type	Description
Capital Investment	The capital reserve is maintained to provide funding for the Council's capital and commercial investments.
Risk and Legal	Risk Reserves Funds set aside to mitigate risks not otherwise provided for as well as commission advice and mitigate risks of potential litigation/claims.
Statutory/Ring-Fenced	Amounts required by statute or accounting code of practice to be set aside and ring-fenced for specific purposes, e.g. Public Health Reserve, City Deal Business Rate Pooling.
Financing	Includes PFI sinking fund, grant income carried forward in accordance with accounting regulations, including troubled families grant and resources set aside to match known contract liabilities.
Service	Amounts set aside to finance specific projects or to meet

General Reserve

10.11. The purpose of the Council's General Reserve will be to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years.

10.12. The level of the reserve will be a matter of judgement having had regard to the advice of the Section 151 Officer which will take account of the specific risks identified through the various corporate processes. This is considered on an annual basis as part of the robustness of reserves assessment, which forms part of the annual budget setting process. It will also take account of the extent to which specific risks are supported through earmarked reserves.

10.13. The current General Reserve Policy is that an unallocated general reserve will be retained of at least 5-6% of the net revenue budget, subject to the sensitivity and risks in the financial plans, to which the Council is exposed.

10.14. The table below shows the assumed general fund opening balance for each year of the current MTFP and the percentage of net budget. The percentage of net budget ranges from 8.4% to 6.1% across the period of the MTFP. The Council's Section 151 Officer recommends

that the Council should work towards increasing this percentage in future MTFPs to reflect the heightened financial risk that the Council is facing.

Table 16: Current MTFP General Fund assumptions and % of net budget

	£m	£m	£m	£m	£m
1 April general fund balance assumption	(36.899)	(28.360)	(28.360)	(28.360)	(28.360)
Net Budget	435.687	445.314	455.349	466.741	466.979
General Fund % of net budget	**-8.47%**	**-6.37%**	**-6.23%**	**-6.08%**	**-6.07%**

Table 17: Earmarked and Ringfenced Reserves

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Earmarked Reserves Total	(180.086)	(102.321)	(85.389)	(82.719)	(82.719)
General Reserves	(36.899)	(28.360)	(28.360)	(28.360)	(28.360)
DSG	24.650	44.225	63.187	80.881	80.881
Schools	(5.604)	(5.604)	(5.604)	(5.604)	(5.604)
HRA	(102.231)	(102.231)	(102.231)	(102.231)	(102.231)

10.15. The purpose of the Council's earmarked reserves is to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed periodically but as a minimum annually.

10.16. The Council's controllable reserves will be held corporately and the use of is subject to a prioritisation process and assessment of the use of the reserve for the approved purpose. Approval of the Section 151 Officer or Deputy Section 151 Officer is required in order to apply the use of earmarked reserves to support revenue expenditure. Each application will require a robust justification and will be assessed based on the planned and approved legitimate use of the reserve and the financial situation of the Council at that time and may result in earlier decisions for funding being revisited and amended.

10.17. All reserves are to be reviewed at least annually to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known/expected calls upon them. Particular attention will be paid in the annual review to those reserves whose balances have not moved over a twelve-month period.

HRA Ringfenced Reserve

10.18. The Council will continue to use a range of funding opportunities to ensure the Interest Cover Ratio (ICR) of the HRA is a minimum of 1.25 and the minimum ICR will be supplemented by an HRA capital investment reserve of at least £10m (approx. 1 year's interest cost) after provisions for any known liabilities and provision in the HRA budget each year to set aside monies to repay borrowing above the level of the historic HRA debt cap.

Management and Governance

10.19. Approval arrangements to be as follows:

- Cabinet Board approval is required for the creation of new earmarked reserves, upon recommendation from the Section 151 Officer.
- Directors and Heads of Service are required to apply to establish a new reserve and to specify the intended use and to demonstrate their plans for use of such a reserve over the period of the MTFP. The planned use shall be reflected in the development of the annual budget process.
- Directors and Heads of Service are required to apply to the Section 151 Officer / Deputy Section 151 Officer in order to draw down from the reserves.
- The Section 151 Officer / Deputy Section 151 Officer shall approve the use of all earmarked reserves provided that the intended use is in accordance with the purpose for which the reserve was established and approved. Intended use outside the defined purpose will require Cabinet approval upon recommendation of the Section 151 Officer.
- Section 151 Officer / Deputy Section 151 Officer approval is required for all contributions to reserves.
- The quarterly timetable for movements in reserves is aligned to the quarterly budget monitoring, which is reported to Cabinet
- Directors will be the designated officer in each Directorate responsible for submitting requests to the Section 151 Officer / Deputy Section 151 Officer for any contributions to or from earmarked reserves via their relevant Finance Business Partner.
- Movements in reserves will be reported to cabinet quarterly for noting as part of the budget monitoring process.

10.20. Each earmarked reserve must be supported by a standard proforma to maintain an audit trail. The proforma can be obtained from your Finance Business Partner and will need to contain:

- the named individual in the Directorate/Division and the Finance Business Partner
- a clear rationale and description for the movement in the reserve;
- details of any conditions associated with the reserve (e.g., grant, legal requirements, etc.); and
- a profile of expected movements and an end date – at which point any balance should be transferred to the general reserve.

10.21. If there is a genuine reason for slippage, then the proforma will need to be updated at the next available quarterly review. An annual review of each earmarked reserve is to take place between the Section 151 Officer / Deputy Section 151 Officer and relevant Director and Finance Business Partner to ensure that all reserves comply with legislative and accounting requirements. This review will ensure that that the number and value of reserves is not unnecessarily increasing annually and will continue to be held corporately.

10.22. The Transformation Reserve will be the Corporate Leadership Boards tool for managing additional expenditure is required for business activities, projects and capacity that is critical to delivering the Councils' improvement agenda.

10.23. A de-minimis level has been set to avoid small funds being set up that could be managed within existing budgets or declared as an overspend and then managed collectively with the express agreement of the Section 151 Officer. This has been set at £0.100m, the exception being where reserves have specific grant or legal conditions.

10.24. Each proforma will clearly identify contributions to and drawdowns from reserves, and these will be built into the MTFP and monitored on a quarterly basis. Accessing reserves will only

be for significant unusual spend, more minor fluctuations will be managed or declared as budget variances. Ongoing recurring costs should not be funded from reserves. Any request contrary to this will only be considered during the annual budget-setting process.

10.25. The short-term use of reserves may be agreed by the Section 151 Officer to provide time to plan for a sustainable funding solution in the following financial year. Decisions on the use of reserves may be delayed until financial year end and will be dependent on the overall financial position of the Council rather than the position of just one budget area.

10.26. The report will contain estimates of reserves where necessary.

10.27. The following principles will be applied by the Section 151 officer:

- Any in year use of the general reserve will need to be approved by Cabinet and any planned use will be part of the budget setting process;
- Any in year use of the General reserve which reduces the level below the policy compliant level
- In considering the use of reserves, there will be no or minimal impairment to the Council's long term financial resilience unless there is no alternative;

10.28. The Council will review the Reserves Policy on an annual basis and will form part of the MTFP reports to Cabinet which will then be subject to Full Council annually. Reserves with no movement in 2 years will be returned to the centre to be held corporately.

10.29. Within the existing categories, there are a number of earmarked reserves that are established for a specific purpose. During 2022/23 a review of earmarked reserves will be undertaken in order to:

- increase the visibility and transparency of reserves;
- clearly define the purpose and intended use of reserves;
- review the justification for continuation of all reserves, including a review of the level of reserve that is justified;
- identify those reserves that are subject to statutory regulations governing their use, e.g. grants; and
- update the categorisation of reserves.

10.30. Progress on this review and the outcomes of the updated categorisation will be reported part of the Quarterly Budget Monitoring reports, Annual MTFP and next MTFP report.

11. Our Financial Principles

Putting this Strategy into Practice

Our financial principles provide a guide and good practice, to support the financial management arrangements in the Council for delivery of a sustainable and balanced budget.

While any one principle, if properly implemented, will likely yield positive results, it is the way these principles reinforce each other that will more fully deliver on the promise of effective financial planning and management.

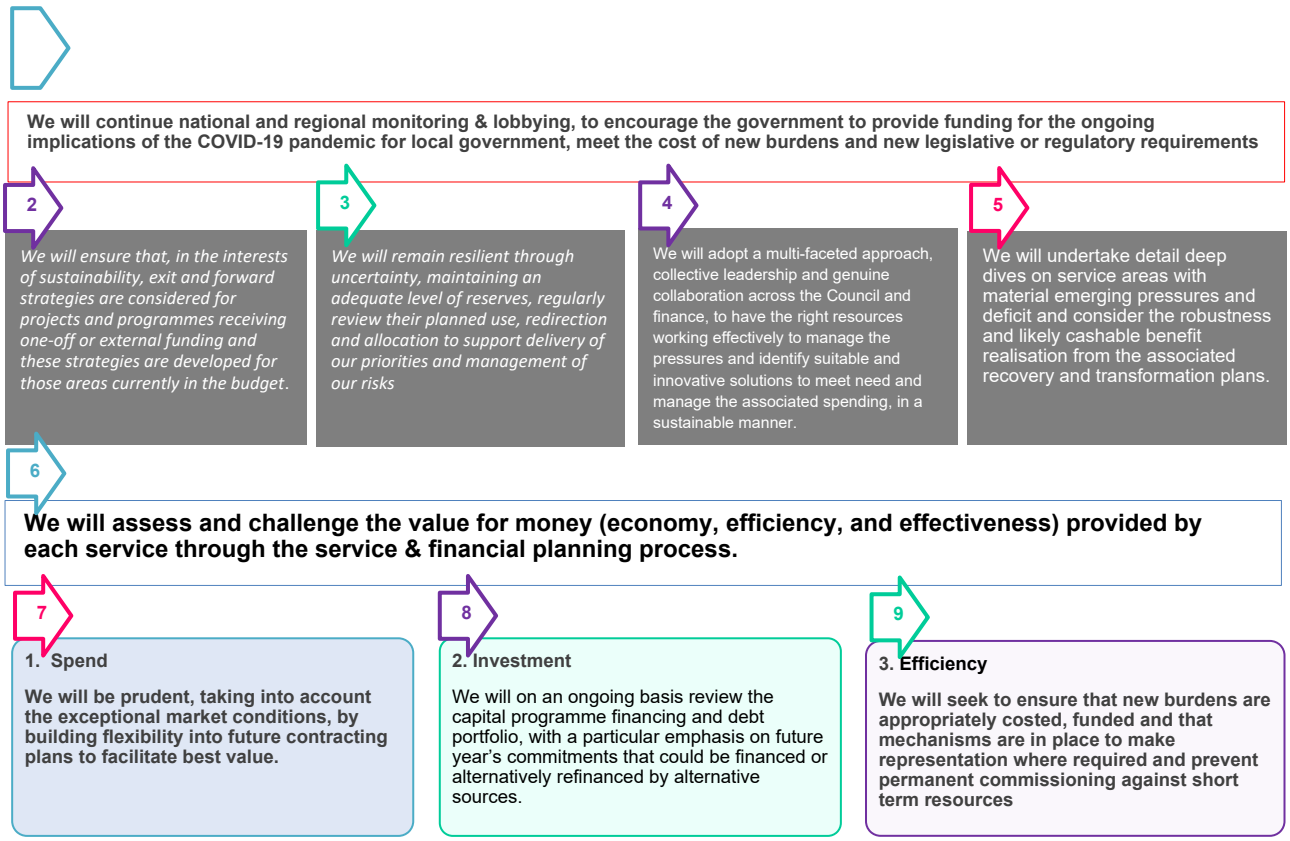
The detailed resourcing principles that underpin these elements and activities are outlined in Annex 2 and provide the tools for a consistent, transparent approach to the annual budget review.

11.1. The Council 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	2. Investment	3. Efficiency
Aligning spend with corporate priorities	**Capital Programme Prioritisation**	**Financial resilience**
Maintaining sustainable finances as a priority	**Investment for sustainable inclusive growth**	**Transforming services**
Being resilient to future uncertainty	**Investment to improve and maintain**	**Financial sustainability**
	Investment to save and generate income	**Affordability**

11.2. The Council is now facing a set of fresh financial challenges and as we 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 nine key principles:

Figure 2: Nine Key Principles



12. Risk Management

12.1. 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 delivery of strategic objectives, to improve service delivery, to achieve value for money and reduce unwelcome surprises.

12.2. 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 and service planning processes.

12.3. We will refresh the Corporate Risk Register to appropriately reflect the key risks which have materialised from the MTFP refresh and ensure close monitoring and transparent reporting on progress and actions.

12.4. In developing the 2023/24 budget to be presented to Council for approval we will consider the key corporate risks that we face, how we propose to address these risks and sufficiency of the financial provisions made, and reserves held, to ensure resilience and sustainability.

13. Consultation and Cumulative Equalities Impact Assessment

13.1. The Council will continue to strive to deliver efficient services that provide value for money. Proposals developed where relevant and proportionate will be subject to internal, external and public consultation. We need to ensure that optimal choices being made are done on a fully informed and transparent basis.

13.2. The Council's budget planning framework is supported by the development of cumulative Equality Impact Assessments (EqIAs) for the budget proposals, identifying possible disproportionate impacts in relation to groups with protected characteristics. The EqIAs 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.

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

Annex 1: CIPFA FM Code - Financial Management Standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom*.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex 2: 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 Board 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).

Transforming Services

Workforce & Productivity

- Develop the right organisational design that enables delivery of Mayoral priorities, including structure, pay and grading framework, and capacity.
- We will invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future.
- The Pay bill should not exceed the annually determined budget percentage.
- We will consider where automation or digital delivery mechanisms are more appropriate.
- Services should fund their own service pressures wherever possible e.g. inflationary uplifts, general inflation (unless there is a contractual agreement that cannot be re-negotiated).

Maximising Asset Utilisation

- Assets held must support a strategic need or offer a net financial return that supports the financial resilience of the Council.
- We will invest in the development of an inventory and valuation system, with clear accounting standards.
- Where it is fit for purpose, we will seek to optimise the infrastructure that we have already invested in.
- The repurposing of the existing infrastructure to allow the Council to deploy for multi-use, e.g. advertising, digital connectivity, with rental income from service providers and from a revenue share on the income they receive.
- We will review restrictive regulation and dysfunctional incentives that encourage waste and low-value use.
- We will ensure all of our assets demonstrate value generation, e.g. no idle assets.
- We will target a minimum 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.
- 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.