Bristol City Council

Medium Term Financial Plan

2024/25 – 2028/29

October 2023

Contents

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 an iterative and rolling 5-year plan which is currently covering the period 2024/25 to 2028/29. The purpose of the MTFP is to provide both a strategic framework to meet corporate priorities, taking a forward-looking approach to the management of the council's financial resources and to support the achievement of a sustainable budget 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 frequent review and revision and builds on the mid-year financial outlook approved by Cabinet in July. 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 2024.

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 changes in the core funding the council expects to receive, and the estimated cost of delivering agreed services over the same period, 2024/25 to 2028/29. The funding gap is generally as a result of funding failing to keep pace with local need, service 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 continues to operate in a challenging economic climate with global uncertainty, high levels of inflation combined with an increased demand for council services, against the context of constrained core funding. The local picture in Bristol reflects the national one. Our population is growing, people are generally living longer and the type of services that people need is changing. There are significant challenges facing the council, in particular inflationary pressures, care provider services for Adult and Children's social care, market stability and pricing issues in the independent sector, the increasing number and complexity of need of children with Special Educational Needs and Disabilities (SEND) and the challenges faced for some groups and communities which is resulting in an increase in temporary accommodation placements. These challenges are not new however, continue to be amplified without any real sign of abatement.

2.3. Nationally, council finances are in a critical state and there is growing concern with regard to the increasing number of councils reporting both overspends in the current financial year 2023/24 and significant estimated budget gaps in future financial years which provide a challenge to their financial sustainability. The Local Government Association has identified a funding gap of £5 billion for local authorities to keep services at their present level until 2026.

2.4. A Local Government Finance Policy Statement 2023/24 to 2024/25 was published by the government in December 2022, setting out their intentions for local government funding in 2023/24 and 2024/25. This statement coupled with local knowledge is the context underpinning many of the core funding assumptions in this annual refresh of the MTFP.

2.5. Based upon the available information and assuming no additional government support is forthcoming, the council's budget gap is set to continue to grow. **The General Fund** base case (most likely) forecast including known financial pressures and indicative funding, results in a **peak funding gap of £32.1** million over the period of the MTFP with £17.8 million attributed to 2024/25 as summarised in the table below.

Table 1: Summary Financial Outlook

General Fund Overview	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Original Budget (Approved by Council)	501.934	511.288	523.045	536.786	536.786
Total Emerging Pressures	29.003	41.912	48.021	49.748	64.975
Council Budget Requirement	530.937	553.200	571.066	586.534	601.761
Total Funding	(513.174)	(544.651)	(538.917)	(554.414)	(570.100)
Budget (Surplus)/Deficit	17.762	8.549	32.149	32.119	31.660

2.6. During the planning process for the 2024/25 financial refresh of the MTFP, directorates have identified further emerging risk and opportunities for mitigation and/or maintaining within "Business as Usual". As such these are not assumed in the forecast gap above and will continue to be reviewed and validated as the annual budget is developed. When considering the sensitivity of the service risks and core funding changes, by revising the forecast to best and worst case of these factors, the position could vary **between £4.7 million and £81.2 million by 2028/29**.

2.7. Recognising the challenge of bridging the estimated budget gaps for the period 2024/25 to 2028/29, whilst at the same time seeking to ensure that the council's revenue budget is robust, resilient and sustainable, the budget strategy will need to build on the savings programmes approved in the prior year and develop a protective budget resilience strategy closely aligned to a sufficient and flexible level of reserves which combined should improve financial resilience and help mitigate risks highlighted within this report.

2.8. There is already a total of £17.7 million of savings planned over the medium term through the 2023/24 budget and the delivery of the identified savings on a recurrent and sustainable basis will be critical. Transformation will remain a key pivot for the council to use to enable this, with the top-4 priority programmes being further developed to address both improvement of outcomes and value for money. However, even with service transformation it is clear that in the absence of additional government funding the council will need to explore further areas, challenging high cost service expenditures and maximisation of external incomes, or expectations of what can be delivered will have to reduce.

2.9. The **Housing Revenue Account (HRA)** includes all expenditure and income incurred in managing the council's housing stock and, in accordance with government legislation, operates as a ringfenced account. The total resources available to the HRA is forecast at around £851 million over the period 2024/25 to 2028/29, with 99.3% of this being derived from rent and service charges to tenants.

2.10. Since all housing priorities are funded through the HRA, any variations in the rental income stream will directly impact upon the level of resources that are available for the mitigation of cost pressures and delivery of housing priorities. Throughout the life of this plan, resources will be directed towards key priority areas which include requirements around fire and electrical safety; damp and mould; and the provision of additional and replacement housing stock.

2.11. The planning assumption is that **Public Health,** as a ringfenced account will operate on a principal of self-funding, as such it will seek to contain the additional costs and any new burden. Risk remains in that should additional Public Health funding not be forthcoming, the service may be unable to absorb the full impact of the pay offer and inflation. This could lead to a depletion of ringfenced reserves over the medium term and a need to re-consider the service offer.

2.12. The **Dedicated Schools Grant** (DSG). On 20 July 2023, 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 2024/25 **will be £435.89 million** (excluding early years block).

2.13. In line with national trends, the key pressure anticipated in the MTFP for **Dedicated Schools Grant** (DSG) relates to the high needs block, which provides funding in relation to pupils with additional and special educational needs and disabilities. The assumptions and risks associated with the projections for this funding block and plans to address the overspend are set out in further detail in the main body of the report.

2.14. The DSG ended the financial year 2022/23 with a cumulative deficit of £39.7 million and is forecasting an unmitigated deficit of £136.7 million by 2028/29. The council in conjunction with partners is progressing into the first delivery phase of the long-term mitigation plan, developed with the support of the Department for Education, Delivering Better Value (DBV) SEND. Mitigation projections from these workstreams and other funding contributions being explored indicate that the DSG could achieve annual sustainability by 2026/27 and make good progress in contributing to a mitigated deficit at a value of circa £30.0 million at the end of this MTFP period.

2.15. A Statutory Instrument (SI) is in place that allows all DSG deficits to be carried over in a separate dedicated account, to allow councils with the short-term flexibility needed to implement changes to move High Needs to a sustainable position. The SI is time-limited and is due to end in March 2026. It should however be noted that there is no statutory undertaking to underwrite this deficit and no clarity has been provided by the DfE about how, when and if this will be funded in the longer term. The council therefore would have to ensure there are adequate usable reserves to cover any DSG deficit and a clear plan for sustainability when preparing the council's accounts if the period of the SI is not extended by government beyond 2026.

2.16. 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 important to the people who live, work and visit the city.

2.17. The Capital Strategy 2024/25 to 2033/34 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.

2.18. 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

2.19. The adequacy of **Reserves** is a key consideration in assessing the council's resilience, coupled with the need to be continually alert to the risks and uncertainty to which the council could be exposed. This is a crucial factor in ensuring the financial sustainability of the council over the medium term. The current council policy aims to retain general reserves of at least 5% - 6% of the net revenue budget requirement (subject to the assessment of risks), in order to cover any major unforeseen expenditure. Based on the forecasted level of reserves of £28.5 million (5.37% and representing 20 days of turnover) for 2024/25, the indication is that to remain at this minimum level with the increasing net budget requirement over the medium term diluting the reserve percentage and turnover ratio, the council will need to uplift the reserve by at least £1.0 million for each year of the MTFP.

2.20. The updated reserve policy setting out the current level of general and earmarked reserves and the management and governance of the funds to increase stewardship, transparency and reporting is attached at Annex 2.

2.21. The council continues to drive for delivery focused on the key areas of tackling poverty and inequality, addressing climate change and ensuring value for money, in partnership with residents and other organisations. The council will need to ensure investment and disinvestment decisions are driven by our strategic priorities and do not undermine the council's financial resilience and sustainability.

2.22. The council will need a budget funding strategy that meets service demand in a sustainable manner; leveraging external income, maximising locally generated income, applying capital intelligently to both improve and reduce revenue costs, and leaning into opportunities around transformation and innovation, to provide ongoing resilience against a backdrop of continuing economic uncertainty.

2.23. In recent years, the council has demonstrated its ability to rise to such challenges and this MTFP sets out our approach to meeting the funding gap in a sustainable manner and providing resilience to manage uncertainties brought about by sustained adverse economic and financial factors.

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 the figure 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 support from external partners and look at innovative ways in which the council can deliver solutions, this may include the use of earmarked reserves set aside to support change and to proactively seek external funding.

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. National Economic Context
2. New Legislative and Policy Change
3. Local Government Funding
4. Service Benchmarking

National Economic Context

5.1. There are a number of international, national and regional factors that influence the MTFP, and the decisions and forecasts that form it. As well as the local socio-economic context (including Bristol's' current and projected population, economy and labour market, and levels of deprivation), the economy is a key driver.

Economy

5.2. Cost of Living – the council's and city's economic and fiscal position is clearly impacted by the wider national and international economic context. The United Kingdom's (UK) cost of living crisis started in 2021, when prices for many essential goods increased faster than household incomes, resulting in a fall in real income. Global and local factors have contributed to this. Global factors include (but are not limited to): cost of living crisis, the energy crisis and rising energy prices, a supply chain crisis and Russia's invasion of Ukraine in 2022. Local factors, some unique to the UK, include high inflation, labour shortages (in part caused by the UK's exit from the EU), and energy, food and fuel. Household incomes have not kept pace with rising prices.

5.3. Office for Budget Responsibility forecasts. Previous analysis of data provided by the Office for Budget Responsibility (OBR) showed that the economy was being adversely affected by the cost-of-living crisis and the impacts of the war in the Ukraine. This was further confirmed in the March 2023 Economic and Fiscal Outlook, when the OBR forecasted UK real GDP to grow by only 0.2% in 2023/24, before returning to more normal growth of 2.1% in 2024/25, 2.4% in 2025/26, 2.1% in 2026/27 and 1.8% in 2027/28.

5.4. Also at this time, the OBR forecast that Consumer Price Index (CPI) inflation would average 4.1% in 2023/24 falling from an average of 9.9% in 2022/23 and then continue to fall to 0.6% in 2024/25 and 0.0% in 2025/26, before beginning to climb to 0.8% in 2026/27 and 1.7% in 2027/28.

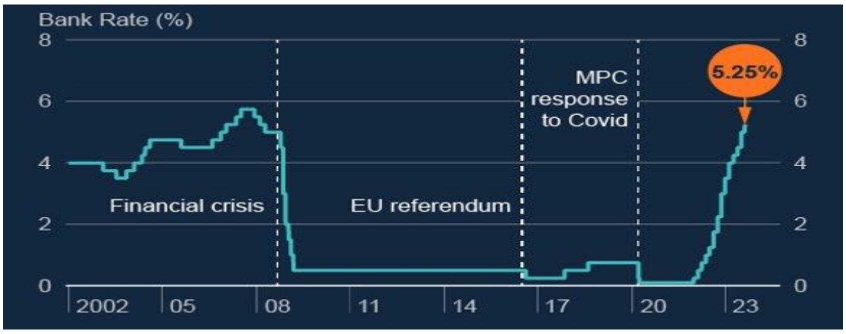
5.5. The Bank of England has responsibility for controlling the annual inflation rate and thereby ensuring price stability. Last year inflation was recorded as having reached a 30 year high at 11.1%. Actual CPI in 2023 stood at 6.7% in the 12 months to August 2023. This level of inflation remains above the Bank of England's target of 2.0%.

Figure 2: 12 Month Inflation [Bank of England Monetary Policy]

5.6. To reduce inflation and bring stability to the rate, the Bank of England increased the bank interest base rate over a series of steps from 2.25% this time last year to 5.25%. The market is predicting that this base rate might be close to a peak, with indications of a 0.25% or 0.5% further rise by the end of 2023, before starting to reduce.

5.7. The outlook has changed, with inflation rates having risen steeply and then having not fallen at the pace previously anticipated, which impacts not only on the council's own expected future costs of supplies, but also on local business finances, meaning there has been little economic growth seen (as evidenced by employment rates) and viability and the cost of living for our residents continues to be a clear challenge. This ultimately leads to potential increased fuel and food poverty being seen and greater demand still on council services such as Temporary Accommodation.

Figure 3: Interest Rates [Bank of England Monetary Policy]



5.8. Since the council approved the current budget and five-year outlook in February 2023 the background context has continued to evolve. The world economy continues to change, inflation and interest rates while appearing to be dropping from historic highs cannot as yet be viewed as stable and are not yet in line with government target levels.

5.9. Interest rate increases 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.

5.10. 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 £91 million and £375 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.

5.11. The internal borrowing referenced above relates to the council's Treasury Strategy to defer borrowing while it has significant levels of liquid treasury investments, £116 million at March 2023 arising from cash backed reserves, balances and working capital. Deferring borrowing reduces the "net" revenue interest cost of the authority as well as reducing the council's exposure to counter party risk for its investments.

5.12. 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 £2.9 million for loans from the council which have not yet been drawn down, though this is set to increase as further loans are approved when housing developments are progressed by Goram Homes. This may impact on project viability and profit / returns to the council. These changes have yet to be factored into the MTFP assumptions below.

New Legislative and Policy Change

5.13. The government's current legislative programme of legislation includes a wide range of proposals. These relate to devolution, planning, council tax, education, energy, housing, and health. It also includes 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
- Strikes Bill

5.14. These pieces of legislation were covered in the financial outlook (July 2023) and as such have not been covered in this refresh.

5.15. This programme of legislation is progressing through the final stages in parliament. Proposals include risk-mitigation measures potentially giving the Secretary of State powers to intervene in a local authority, and a breadth of measures around reforms of the planning system as well as new powers for local authorities around commercial and residential empty premises.

Early Years Funding Consultation

5.16. Following consultation in July 2022 there have been updates to the early years funding formulae and maintained nursery school supplementary funding during 2023/24. The funding alignments averaged at between 3.4%-4% increases, significantly below inflation and demand pressures being seen. Further changes and funding updates to early years provisions coming in for 2024/25 around 2 year old funding are anticipated in the autumn of 2023.

Local Enterprise Partnerships (LEP's) back into local authorities

5.17. Following the initial announcement in the Spring Budget government undertook an information gathering exercise and as a result has confirmed its decision to withdraw central government core funding from LEPs from April 2024 and to transfer LEP functions to Local Authorities (LA's) where appropriate and where they are not already delivered by Combined Authorities (CA's). The March 2022 LEP Integration Guidance sets out the process. Government will provide some revenue funding (details to be confirmed) to LA's and CA's in 2024/25 to support them to deliver functions currently delivered by LEP's. Future year's funding will be subject to future Spending Review decisions.

5.18. The government intends to pursue an ongoing legislative programme. The legislative agenda is to run to autumn 2023, with the government setting out its fresh agenda in the first King's Speech on 7 November 2023.

Local Government Funding

5.19. The government's spending plans for the years 2022/23 to 2024/25 were set out in the Comprehensive Spending Review 2021. However, as outlined in the MTFP 2023/24 refresh and annual budget, the government has modified its plans for adult social care, further clarified its plans for local government expenditure and funding revisions and announced a new policy on childcare with significant funding changes for the early years sector.

5.20. A Local Government Finance Policy Statement 2023/24 to 2024/25 was published by the government on 12 December 2022 setting out the government's intentions for local government funding in 2023/24 and 2024/25. The outline of the government's intentions for 2024/25 included:

- The local government finance reforms such as the Fair Funding Review and the business rates reset, will not be implemented in this Spending Review period
- Core council tax will be allowed to increase by up to 3% and the adult social care precept by up to 2% in 2024/25 before being subject to a local referendum
- The major grants included in the 2023/24 Core Spending Power will continue as in 2023/24, including the social care grants
- Revenue Support Grant will be uplifted in line with the Baseline Funding Level, which normally increases in line with the increase in the Small Business rates multiplier
- Business Rates Pooling will continue into 2024/25
- Adult Social Care funding was confirmed as set out in the Autumn Statement 2022 for both 2023/24 and 2024/25
- Council Tax second home premium - delayed (see section 6.12 and 6.13)

5.21. In the Spring Budget (March 2023), the Chancellor outlined the measures in the budget intended to further the achievement of three of the five priorities set out by the Prime Minister in late 2022:

- Halving inflation by the end of 2023
- Growing the economy
- Getting debt to fall as a share of GDP

5.22. The Key local government announcements in the 2023 Spring Budget included:

- Providing over £4.1 billion by 2027/28 to fund 30 hours per week of childcare free for working parents with children over 9 months of age
- From April 2024 working parents of 2 year olds will be able to access 15 hours extending to all those children over 9 months by September 2024
- From September 2025 all parents will be able to access 30 hours of free childcare for children over 9 months of age
- Childcare regulations will increase the staff to child ratio from 1:4 to 1:5 from September 2023 on a voluntary basis
- Providing an additional £204 million in 2023/24 to pay an increased hourly rate for childcare from September 2023 rising to £288 million in 2024/25
- Providing an additional £289 million to increase 'wrap-around' care at schools beyond school hours and rolled out nationally in 2024/25 and 2025/26
- Paying the childcare costs element of Universal Credit in advance rather than in arrears and increasing the maximum amount to £951 for one child and £1,630 for 2 children
- Providing an additional £8.1 million for the next two years to about half of local authorities for young people leaving residential care, giving them accommodation and practical and emotional support
- Providing £63 million of funding for public swimming pool providers to help with immediate cost pressures and make facilities more energy efficient
- Providing £100 million of support to local charities for on-the-ground assistance to those falling outside of official support networks
- Creating 12 new Investment Zones across the country with £80 million in support
- A third round of the Levelling Up Fund will proceed later 2023 with a further £1 billion committed to the fund
- A consultation was announced on bringing the activities of Local Enterprise Partnerships back into local authorities.

5.23. The government signalled their intent to proceed with the modified revaluation adjustment for the implementation of the 2023 revaluation, with the methodology and adjustments to tariffs and top-ups published alongside the provisional Local Government Finance Settlement.

5.24. Adjustments will subsequently be made to account for compiled rating list data for the 2023 list as at 1 April 2023 and for Outturn Business Rates data for 2022-23 at the 2024-25 Local Government Finance Settlement, with the final adjustment at the 2025-26 settlement. The government will keep the revaluation adjustment under review.

5.25. 2024-25 new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (EPR) scheme; where local authorities can expect to receive additional income from the scheme relevant to their waste collection services has been delayed.

Service Benchmarking

5.26. Benchmarking helps to identify whether the cost of delivering council's services can be lower or higher than comparable councils, therefore raising the prospect that scrutiny that might find additional opportunities for savings or in the alternative better outcomes for the level of investment. The following benchmarking has been reviewed and highlights areas where focus can be applied to identify high cost services in comparison to our peer authorities.

5.27. Comparative analysis between Bristol and other councils, based on being either statistically analogous, or having similar geographical or economic characteristics, can provide the council with insight into its position on a range of measures or risks and can highlight key areas where additional scrutiny can be targeted to drive out improved value for money.

5.28. The following outlines some key findings when comparing Bristol with a group of similar councils. For example, Bristol's core spending power (total service expenditure) per head is average in comparison to all metropolitan and unitary authorities and 'low' in comparison with statistical near neighbours, as can be seen in the figure below.

Figure 4: Overview Comparison of the Council's Expenditure with Comparator Councils

Service line	Unit	Metros & Unitaries max	NN max	Bristol	NN min	Metros & Unitaries min	Metros & Unitaries context	NN Context
TOTAL ADULT SOCIAL CARE	/aged 18+	626.66	507.98	488.51	400.49	313.75	Very High	High
TOTAL CENTRAL SERVICES	/head	350.40	214.14	38.77	-3.99	-3.99	Low	Low
TOTAL CHILDREN SOCIAL CARE	/aged 0-17	2,243.15	1,449.51	962.80	757.88	52.85	Average	Low
TOTAL CULTURAL AND RELATED SERVICES	/head	197.66	88.47	62.30	28.13	11.27	Very High	Average
TOTAL EDUCATION SERVICES	/aged 0-18	4,482.25	4,342.93	2,455.45	1,682.30	1,130.01	Average	Average
TOTAL ENVIRONMENTAL AND REGULATORY SERVICES	/head	677.45	211.21	98.60	69.56	28.05	High	Very High
TOTAL HIGHWAYS AND TRANSPORT SERVICES	/head	221.92	122.49	25.28	-24.92	-197.91	Low	Low
TOTAL HOUSING SERVICES (GFRA only)	/head	197.42	127.92	64.07	23.55	-72.78	Very High	Very High
TOTAL OTHER SERVICES	/head	73.09	73.09	43.34	-22.13	-53.87	Very High	Very High
TOTAL PLANNING AND DEVELOPMENT SERVICES	/head	157.23	59.39	28.61	3.62	-1.67	High	Average
TOTAL PUBLIC HEALTH SERVICES	/head	161.95	133.71	112.15	59.67	34.05	High	High
TOTAL SERVICE EXPENDITURE	/head	2,977.54	1,993.48	1,467.91	1,352.87	1,061.95	Average	Low

5.29. Within the comparisons there is however variation where Bristol is identified as being 'high' or 'very high' on our spend in comparison to others, with key areas of note including:

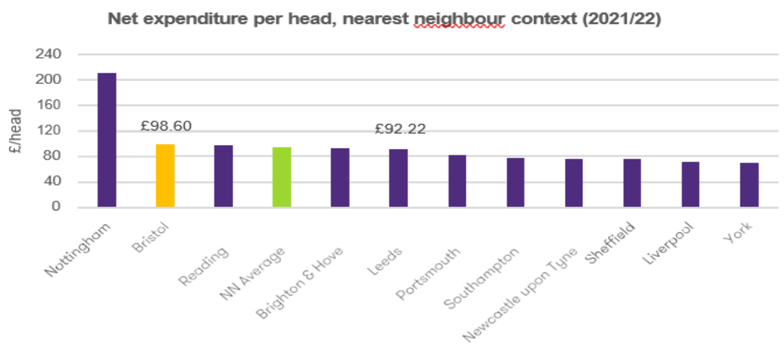
- General Fund housing identified as 'very high' cost with all comparators and is second to highest compared to near neighbours

- The proportion of council spend is high on Adult Social Care (4th highest when ranked compared to statistically near neighbours)

- Other areas that indicate there may be scope to focus on high cost and opportunity around what others may be doing differently to enable Bristol to achieve improved cost per head include:
  - Environmental and regulatory services
  - Planning and development services
  - Cultural and related services
  - Public Health services

5.30. Taking one of these areas, 'Environmental and regulatory services', this service has net expenditure per head at £98.60 which when compared to Leeds, a comparable core city, £92.22 could be considered high and therefore would warrant further investigation.

Figure 5: Environmental and regulatory services benchmarking (2021-22 data)



5.31. A typical measure of a council's 'resilience' is the measure of its total spend on social care (adding Adult and Children's Social Care spend together), Adult Social Care expenditure is already very high but Children's social care expenditure while lower proportionally based on 2021 data is rising proportionally. Further details can be found in the discussion of 'resilience' in the section below.

5.32. Other findings in the comparative analysis included that savings opportunities could potentially open up if the council reduced spend by one ranking level in the list of comparable councils. This can be explored further during the upcoming council budget process where greater detailed comparative scrutiny of other services such as temporary accommodation, waste and public health will be undertaken.

5.33. Income comparisons (see figure below) show the council's Council Tax collection rate would be considered low compared to the near neighbour group and the same is to be said of non-domestic rates collection (see figure below), where Bristol is found to have the second lowest collection rate at 91.25% compared with 97% collected by York. It should be noted, however, that the latest data on which comparisons were performed is for 2021-22, therefore performance was still influenced by temporary pandemic policies.

Expectations for 2023-24 will be a collection rate of in year at least 94%. Benchmarking of income beyond council tax and business rates is planned.

Figure 6: Council Tax Collection Rate Benchmarking (2021-22 data)

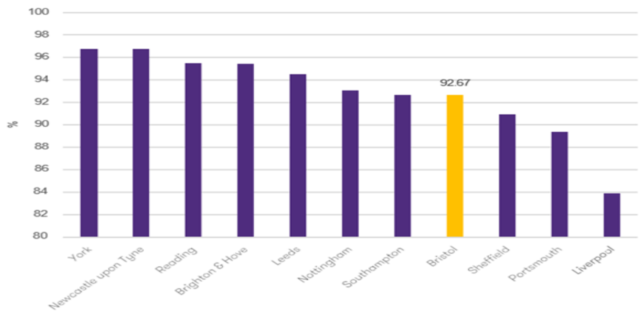
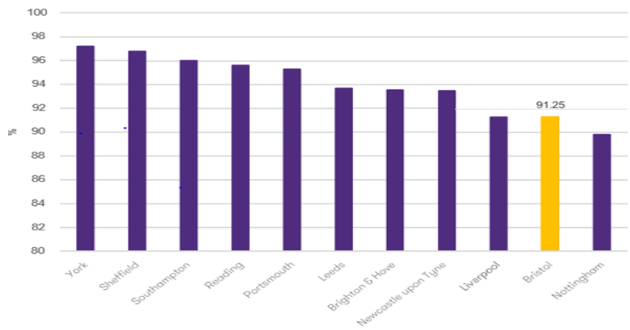


Figure 7: Non-Domestic Rates Collection Benchmarking (2021-22 data)



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 February 2023 outlined a 3-year balanced position across the five years. The net budget over the medium term is inclusive of new savings and efficiencies totalling £43.9 million (pre-optimism bias) and for the main part (92%) impact financial years 2023/24 and 2024/25 financial years. The table below outlines the indicative funding envelope requirement of £501.9 million 2024/25 to £536.8 million 2027/28 underpinning the council's medium term budget upon which additionality is being built.

Table 2: Previous Summary of General Fund Revenue Budget for the MTFP Period

2023/24	Description	2024/25	2025/26	2026/27	2027/28	2028/29
Budget £m		Proj'n £m	Proj'n £m	Proj'n £m	Proj'n £m	Proj'n £m
425.033	**Base budget Carried Forward**	**483.523**	**501.934**	**511.288**	**523.045**	**536.786**
15.545	Pay Award	6.990	5.880	5.972	5.870	-

28.043	General Contract & Other Corporate Pressures	18.964	2.288	4.146	5.665	-
43.588	**Total Inflationary Pressures**	**25.954**	**8.168**	**10.118**	**11.535**	**-**
7.498	Adult, Communities & Public Health	3.572	1.251	1.186	1.196	-
23.975	Children and Education	2.028	1.398	1.484	1.527	-
2.114	Resources	(0.058)	-	-	-	-
5.111	Growth & Regeneration	0.024	0.010	0.030	0.030	-
38.698	**Total Service Pressures**	**5.566**	**2.659**	**2.700**	**2.753**	**-**
82.286	**Total Pressures**	**31.520**	**10.827**	**12.818**	**14.288**	**-**
(26.241)	Savings	(14.109)	(1.973)	(1.061)	(0.547)	-
2.445	Optimism Bias	1.000	0.500	-	-	-
(23.796)	**Total Savings**	(13.109)	(1.473)	(1.061)	(0.547)	-
483.523	**Baseline Costs**	**501.934**	**511.288**	**523.045**	**536.786**	**536.786**
	One-off Costs	-	-	-	-	-
483.523	**General Fund Budget Requirement**	**501.934**	**511.288**	**523.045**	**536.786**	**536.786**
(258.801)	Council Tax	(274.188)	(281.927)	(289.785)	(302.148)	-
-	Council Tax Second Home Premium	(2.872)	(3.015)	(3.075)	(3.136)	-
(153.451)	Business Rates (NNDR)	(157.320)	(148.521)	(151.737)	(151.932)	-
(1.599)	New Homes Bonus	-	-	-	-	-
(4.126)	Services Grant	(4.126)	-	-	-	-
(56.790)	Social Care Grant	(67.583)	(68.962)	(70.317)	(69.793)	-
(3.929)	Drawdown from General & Earmarked Reserve	4.155	(8.863)	-	-	-
(4.827)	Collection Fund Surplus/(Deficit)	-	-	-	-	-
(483.523)	**Funding**	**(501.934)**	**(511.288)**	**(514.914)**	**(527.009)**	**(527.009)**
-	**Budget Surplus/(Deficit)**	**-**	**-**	**8.131**	**9.777**	**9.777**

6.2. The following key assumptions were being made at the point of the budget approval by Council in February 2023 and included in the opening projections per the table above:

- Council Tax increase of 4.99% (including 2.99% for general purposes and 2% Adult Social Care Precept)
- Introduction of 100% council tax premium on second and empty homes subject to parliamentary approval
- 100% business rates retention for 2023/24 only and multiplier uplifted by CPI
- A pay award/NIC capped (£9,100) of c4% plus small contingency
- All Social Care grants - retained for the medium term and cash flat
- No general inflation uplift to be applied to service expenditure budgets

- Inflation uplift of 5% to be applied to all fees and charges
- Specific inflationary increases in Private Finance Initiative (PFI), social care and essential services eg such as utilities only
- Capital Financing – assumption that borrowing costs peak at 4.5% in 2023/24
- ASC reforms delayed 2 years - new burden fully contained within redistributed funding

6.3. Within this baseline position there remains uncertainty in relation to one-off grant funding streams and future local government funding reforms, such as fair funding and business rates and inflation. To de-risk the position the council is only allocating one off or uncertain funding to one off initiatives and pressures.

6.4. The medium term financial plan 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.

Council funding

6.5. The forecast level of overall general fund resources estimated to be available to the council, including retained business rates, central grants, and Council Tax income, over the next financial year is projected to be £513.2 million (this figure is £11.2 million higher than originally estimated in the budget) and broken down in the table below.

Table 3: Forecast Level of Overall General Fund Resources available to the Council

Core Funding	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Original Forecast Available Funding	(501.934)	(511.288)	(514.914)	(527.009)	(527.009)
September 2023 Forecast Funding	(513.174)	(544.651)	(538.917)	(554.414)	(570.100)
Changes since February 2023	**(11.240)**	**(33.363)**	**(24.003)**	**(27.405)**	**(43.091)**
Of which:					
Collection Fund Outturn	(1.993)	-	-	-	-
Additional Council Tax	(0.924)	(4.952)	(9.365)	(9.798)	(23.141)
Council Tax Second Home Premium	2.872	-	(0.030)	(0.062)	(0.095)
Business Rates Multiplier/ Growth / 100% Retention	(13.230)	(27.331)	(11.769)	(12.424)	(12.451)
New Homes Bonus	(1.599)	-	-	-	-
Additional Grants	3.633	(1.080)	(2.839)	(5.122)	(7.405)
Total Additional Core Funding	(11.240)	(33.363)	(24.003)	(27.405)	(43.091)

6.6. The following are key assumptions on future government funding, much of which is still uncertain as indicated below. Further details will be provided in the Autumn Statement 2023, Provisional Local Government Finance Settlement December 2023 and Final Local Government Finance Settlement, January / February 2024.

Collection Fund Surplus / Deficit Outturn

6.7. The actual movement from the council tax and business rates budget estimates for 2022/23 and 2023/24 will impact on the 2024/25 budget as they are included in the collection fund estimates. The 2024/25 budget assumed a neutral position on the collection fund. Losses in the collection fund brought forward from 2022/23 of £3.007 million, along with a potential overclaim of S31 grant of £1.500 million and additional funding of £0.500 million to facilitate further, timely recovery action can be offset by a positive 2023/24 business rates outturn movement of £7.000 million, resulting in a surplus on the collection fund of £1.993 million forecast for 2024/25.

Table 4: Breakdown of Carry Forward Deficit from 2022/23 and 2023/24 on the Collection Fund

2024/25 Collection Fund (Surplus)/Deficit	Council Tax	Business Rates	Total
	£m	£m	£m
Balance Brought Forward 2022/23	(0.076)	3.083	3.007
Additional Business Rates 2023/24		(7.000)	(7.000)
Forecast (Surplus)/Deficit in 2023/24	-	-	-
Additional council tax admin costs 2023/24	0.500	-	0.500
Provision for overclaimed S31 Grant		1.500	1.500
Total (Surplus)/Deficit C/Fwd 2024/25	**0.424**	**(2.417)**	**(1.993)**

Business Rates, Business Rates Multiplier and Settlement Funding

6.8. 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. It seems likely that these existing 100% business rates arrangements will continue for another two years to 2025/26 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

6.9. The government confirmed in the December Policy Statement that the local government funding reforms would not take place in the current parliament. Based on the assumption that a general election will be in either spring or autumn 2024, then it will be almost impossible for the reforms to be introduced in 2025/26. It therefore seems likely that the first realistic opportunity for implementing funding reforms is 2026/27. The MTFP is predicated on reforms happening in 2026/27, with a business rates baseline reset and the local retention share decreasing from 100% to 75%.

6.10. 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 on-going high levels of inflation provide an increase in estimated business rates in 2024/25 and over the medium term. The business rates multiplier, which in turn will be uplifted by the September Consumer Price Index (CPI). Any decision to cap or freeze the BR multiplier will be compensated via section 31 grants. CPI is assumed to be circa 6%.

Additional One-off Grants

6.11. The 2023/24 Services Grant settlement as announced autumn 2022 was a 2 year settlement and did not set out any longer-term changes for the allocation of funding. It confirmed that the overall budgets for each department would be maintained broadly in line with the budgets set at the spending review. The 2023/24 budget assumed £5.7 million of non-ringfenced grants as one-off grants. For 2024/25 these have been assumed in funding available in the medium term but have tapered by half.

6.12. The government has not yet confirmed the distribution of grant funding in 2024/25. This is expected to form part of the Autumn Statement scheduled for 22 November 2023.

Council Tax Second Home Premium

6.13. The Levelling-up and Regeneration Bill originated in 2022/23 and includes proposals that billing authorities will have the power to charge a 100% premium on second homes or empty dwellings.

6.14. The bill has progressed from the House of Commons to the House of Lords where it had its third reading on 21 September. It now enters the final stages when consideration will be given to proposed amendments before royal assent. As a result of the delay it is unlikely that any premium could be applied before April 2025 at the earliest.

General Fund – Indicative Available Funding

6.15. 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 rises from £483.5 million in 2023/24 (including the additional funding sources outlined below) to £570 million in 2028/29.

Table 5: Indicative Available Funding

2023/24 Budget £m	Description	2024/25 Projection £m	2025/26 Projection £m	2026/27 Projection £m	2027/28 Projection £m	2028/29 Projection £m
(258.801)	Council Tax	(275.112)	(286.879)	(299.150)	(311.946)	(325.289)
-	Council Tax Second Home Premium	-	(3.015)	(3.105)	(3.198)	(3.231)
(153.451)	Business Rates (NNDR)	(170.550)	(175.852)	(163.506)	(164.356)	(164.383)
(1.599)	New Homes Bonus	(1.599)	-	-	-	-
(4.126)	Services Grant	(4.126)	-	-	-	-
(56.790)	Social Care Grants	(63.950)	(70.042)	(73.156)	(74.915)	(77.198)
(3.929)	Drawdown from General & Earmarked Reserve	4.155	(8.863)	-	-	-
(4.827)	Collection Fund Surplus/(Deficit)	(1.993)	-	-	-	-
(483.523)	**Funding**	**(513.174)**	**(544.651)**	**(538.917)**	**(554.414)**	**(570.100)**

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

Council Tax

6.17. Council Tax is the main source of locally raised income for the council. For 2024/25, Council Tax referendum principles will continue the same as set out for 2023-24, that is, 2.99% for the “core” increase and a further 2% for the 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.

6.18. A 1.0% 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 2.99% with an additional Social Care Precept of 2.0%.

New Homes Bonus

6.19. 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. A decision on the future of New Homes Bonus (NHB) will be announced before the 2024-25 settlement. In the absence of any decision or announcement, we are still assuming that NHB will continue for one (final) year in 2024-25 at the same level as 2023/24 £1.599 million.

Social Care

6.20. Adult social care funding has been under pressure for many years creating a social care funding gap. These pressures include:

- Demographic pressures with increased numbers of both older people needing social care, and increased demand for care from working age adults
- Increases in the National Living Wage costs
- Increasing costs of care to support people with increasingly complex care needs and the associated workforce challenges across the sector
- Inflationary pressures

6.21. The social care grant is expected to continue at current levels on a cash-flat basis. Although there is recognition that the level of funding is insufficient for the pressure and demands coming through, with the Levelling Up, Housing and Communities Committee having noted this in its August 2022 report on the long-term funding of adult social care.

7. Emerging Financial Pressures

Summary Position

- The budget report to Full Council in February 2023 reported a balanced position for the initial 3 years supplemented through the planned utilisation of £8.6 million of reserves. The latter 2 years of the budget timeframe reported up to £9.8 million deficit.

- The new and additional emerging pressures identified over the planning period peak at £65.0 million. The underpinning assumptions in relation to each of the categories of emerging pressures are outlined in the subsequent sections.

- This is an iterative process, to which assumptions will e kept under review se risks 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.

- 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 6: Emerging Financial Pressures

Emerging Pressures	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Recurrent / New Service Pressures	18.077	21.036	21.384	21.743	23.102
Corporate Emerging Pressures					
Pay Award & NIC	3.785	3.605	3.399	3.188	8.937
Inflation & Levies	5.487	15.329	21.259	22.802	30.883
Capital Financing	0.254	0.507	0.507	0.507	0.507
Other Corporate Pressures	1.400	1.435	1.471	1.508	1.545
Total Corporate Pressures	**10.926**	**20.876**	**26.637**	**28.005**	**41.873**
Total Emerging Pressures	29.003	41.912	48.021	49.748	64.975

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

- At Period 5 (P5) / Quarter 2 (Q2) 2023/24, the council is forecasting a £1.0 million underspend (-0.2%) against the approved General Fund budget (£483.5m). This position incorporates £13.1 million of recently identified efficiency measures without which the outlook would otherwise report a £12.1 million overspend. This £12.1 million overspend is directly attributed both to escalating child placement costs (£8.0m) where there is heavy reliance on External Supported Accommodation (ESA) and Out Of Authority (OoA) placement markets and also to Home To School Transport (£4.1m) within the education service which has seen a significant increase in the number of children with Education, Health and Care Plans (EHCPs) requiring transport to school and increasingly that transport is outside the local area. See Bristol City Council Quarter 2 2023/24 - Finance Monitoring Revenue Report Appendix A1a for full details.

- The review undertaken to inform the MTFP refresh indicates that many of these in year pressures are in fact recurrent in nature whilst the efficiency measures which have been identified to mitigate them are ‘one-off’ in nature and are not easily repeated going forward.

- Mitigations will continue to be explored including collaboration with partners to identify mechanisms to manage the challenges and improve outcomes. As at Quarter 2 £11.0 million recurrent or unmitigated pressures are assumed within the general fund.

Table 7: Recurrent 23/24 Budget Pressures

Service Pressures Carried Forward	Q1 Var as % Net Budget	P3 Mov em’t	P4 Move m’t	P5 Move m’t	Q2 Variance		Recurrent Pressures / Opportunities	One-Off Pressures / Opportunities		Pressures C/F to 24/25	Perm Virement	2024/25
	%	£000s	£000s	£000s	£000s		£000s	£000s		£000s	£000s	£000s
Adult & Communities												
Total Adult & Communities	**0%**	-	-	-	-		-	-		-	-	-
Children & Education												
Children and Families Services	0.0%	-	7,980	(450)	**7,530**		10,142	(2,611)		**10,142**	**(2,335)**	**7,807**
Educational Improvement	0.0%	-	4,091	(100)	**3,991**		4,193	(203)		**4,193**	**(965)**	**3,228**
Total Children & Education	**0%**	-	**12,071**	**(550)**	**11,521**		**14,335**	**(2,814)**		**14,335**	**(3,300)**	**11,035**
Resources												
Policy, Strategy and Digital	0.0%	(2)	-	(700)	**(700)**		-	(700)		-	-	-
Legal and Democratic Services	0.0%	-	-	(254)	**(254)**		-	(254)		-	-	-
Finance	0.0%	3	-	(437)	**(437)**		-	(437)		-	-	-
HR, Workplace & Organisational Design	0.0%	-	-	(164)	**(164)**		-	(164)		-	-	-
Total Resources	**0%**	**1**	-	**(1,555)**	**(1,555)**		-	**(1,555)**		-	-	-
Growth & Regeneration												
Housing & Landlord Services	0.0%	-	-	1	**1**		-	1		-	-	-
Economy of Place	0.0%	-	-	(17)	**(17)**		-	(17)		-	-	-
Management of Place	0.0%	31	-	(48)	**(48)**		-	(48)		-	-	-
Property, Assets and Infrastructure	0.0%	-	-	64	**64**		-	64		-	-	-
Total Growth & Regeneration	**0%**	**31**	-	-	-		-	-		-	-	-
SERVICE NET PRESSURES CARRIED FORWARD		**32**	**12,071**	**(2,105)**	**9,966**		**14,335**	**(4,369)**		**14,335**	**(3,300)**	**11,035**
Corporate												

Corporate Items	0.0%	-	-	(11,000)	**(11,000)**		(3,300)	(7,700)		**(3,300)**	**3,300**	-
Earmarked Reserves and Contingencies	0.0%	-	-	-	-		-	-		-	-	-
Pay Awards - Base Case	0.0%	-	-	-	-		-	-		-	-	-
Excess Inflation - Draft	0.0%	-	-	-	-		-	-		-	-	-
General Reserves	0.0%	-	-	-	-		-	-		-	-	-
Total Corporate	**0%**	**-**	**-**	**(11,000)**	**(11,000)**		**(3,300)**	**(7,700)**		**(3,300)**	**3,300**	**-**

TOTAL REVENUE NET PRESSURES CARRIED FORWARD	**32**	**12,071**	**(13,105)**	**(1,034)**		**11,035**	**(12,069)**		**11,035**	**-**	**11,035**

- The currently forecast year end revenue position for the ringfenced accounts at Quarter 2 is a £16.4 million overspend for the DSG (3.6%), £3.6 million overspend for the HRA (2.6%) and a balanced position for the Public Heath grant.

Pay Award

- The 2023/24 annual budget and medium-term plan included provision for an annual pay award in 2023/24 of 4% with a 1% corporate contingency which is not required and can be applied to pay awards, 3% annual pay award in 2024/25 and a 2.5% annual pay award thereafter.

- The National Employers 2023/24 final offer to the unions recently proposed:

    - The lowest pay point on the national salary framework will be scrapped. The starting point will now be SCP 2

    - The minimum pay for full-time local government employees on the new lowest pay scale point will rise from £19,264 to £20,852, an increase of 8.2%

    - The maximum pay at the top of the local government pay scales will rise from £45,876 to £50,976, an increase of 11.1%

    - There will be a flat-rate increase of £1,925 for all spinal column points. This replaces the previous practice of percentage increases to pay scales

    - Allowances for working unsocial hours like night shifts will increase by 21%

    - Mileage allowances will go up by 10 pence per mile for car users

- At the time of this report’s preparation the unions have not accepted this final offer.

- Pay therefore remains an area of uncertainty. Consequently, the pay provision assumed for 2024/25 has been revised up from 3% to 4% with a small contingency. Annual pay awards thereafter are assumed unchanged from the previous budget.

Contractual Inflation & Levies

- 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 each year to allow for material contractual inflationary cost pressures and levies which cannot be managed within a service.

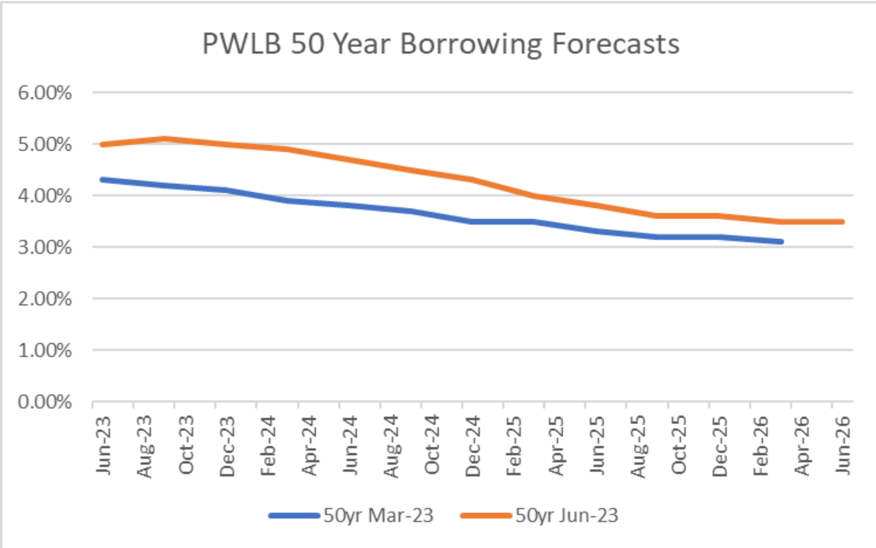
- The MTFP has modelled a range of scenarios for specific areas where there are either contract commitments or evidenced industry specific inflationary pressures, such as social care, Home To School Transport, Waste disposal and PFI.

Capital Financing and Interest Rates

- The Bank of England Base Rate is 5.25% at September 2023. This is an increase of 1.75% since the budget was approved at Cabinet in January 2023 when the base rate was 3.5%

- 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.

Figure 8: Impact of recent changes in long-term borrowing rates



Service Risks

Adult Social Care Risks

7.19. Adult Social Care continues to face significant financial challenges in 2023/24 in relation to service demand and inflationary cost pressures. Adult purchasing budgets are currently forecasting a risk of adverse overspend of £11.9 million (7.5%) against a budget of £159.4 million, mitigation for this is being developed through the transformation programme.

7.20. 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 demand for care in both working age and older people where increased numbers of people are being supported and support costs relating to young people preparing for adulthood.

Children and Families Risks

7.1. There remains risk around placement cost pressures, with the CIPFA spring performance update indicating spend in children's social care had increased by 41% in 2021/22, compared to 2009/10, while the children's population grew by less than 10% over the same period. This trend is mirrored in Bristol where, after a spike towards the end of the last financial year, the overall number of Children in Care has remained relatively stable (between 730-740) in the current year, but the cost of placement provision and support continues to increase significantly.

7.2. The placement budget, at Q2, is forecasting a pressure of £7.5 million with services working to mitigate further risks identified. This pressure is reflective of Bristol being increasingly reliant on the external placement market; 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; and delays in transferring eighteen-year-olds onto the housing pathway due to a shortage of housing and an insufficient number of foster carers.

7.3. There are risks remaining above these crystalising pressures particularly linked to children in care, where there is nursing support requirement, and around asylum seeker support, where there are increasing costs of temporary housing and growing numbers of families seeking housing, employment and support.

7.4. The Children's Service (Our Families) Transformation Programme is underway and 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

7.5. Education general is forecasting a pressure of £4.0 million at Q2. The overspend is a driven by increasing pressure on the Home to School Transport (HTST) budgets resulting from increasing demand and costs. Limited availability of local provision for children with Education Health and Care Plans (EHCPs) results in children being placed further outside the local area. This, coupled with the growing number of children with EHCPs, results in an increasing number of children needing travel support to education provision further away from home. The Education service saw a 9% increase in the number of children and young people with EHCPs at the January 2023 census, compared to the same time last year. HTST provision however saw a 50% increase in the number of routes to education settings outside the local area at April 2023 compared to the same time last year.

7.6. HTST provision is being reviewed as part of the Our Families transformation programme.

Growth & Regeneration Risks

Energy

7.7. The cost of energy has increased in the last few years due to global issues. Government support for local authorities has ended and whilst the energy market is now stabilising, prices are twice historic rates resulting in significant in year cost pressures. The council is taking steps to mitigate some of the pressure through negotiating new energy contracts and implementing a programme of energy efficiency measures across its estate. However, the residual pressure is still estimated to be in excess of £2.2 million pa with further risk around street lighting of c.£1.4 million whilst the programme of replacement of street lights with more efficient LED ones progresses. There is also risk around the incomes linked to power purchase and feed-in-tariff agreements tied to the energy costs.

Corporate Landlord

7.8. The council is undertaking a significant property programme transformation, which includes rationalisation of its assets and the implementation of a centralised Corporate Landlord function. The existing MTFP includes revenue savings from delivery of the property programme. However, delivery of the savings is at risk of delay in the current financial year, which presents an emerging risk for the coming year.

Highways and Waste

7.9. As detailed above, inflationary impacts are leading to increases in the costs of providing council services. These are resulting in a risk to the management of budget envelopes in particular in highways of up to potentially £1.0 million and for waste of up to potentially £2.2 million, which the directorate is mitigating in the current year and will need to assess how best to continue this mitigation recurrently into the medium term.

Parking and Parks

7.10. There is an emerging risk around income reduction from car parking reflecting demand and reduction in provision in the coming financial year which will require management within the service budget envelope estimated at a potential £1.0 million risk.

7.11. Within parks there are a number of smaller income pressures relating to commercial licences, car parking and catering as well as cost pressures for recharges relating to energy, waste, green waste and facilities management which will require management through the co-ordination of the catering contracts particularly. This is estimated at a potential £0.8 million risk.

7.12. Maintenance budgets are now being prioritised to deal with trees most significantly effected from ash dieback, which presents an emerging risk to parks wider maintenance programme to accommodate these works.

Homelessness

7.13. Homelessness in Bristol continues to increase due to a number of factors including the cost of living crisis, unaffordability of the private rented sector and reduced supply of social and affordable housing. The number of households in temporary accommodation continues to rise thereby creating risk to the increase in Housing Benefit subsidy loss.

7.14. Bristol City Council has established a Temporary Accommodation project and is delivering initiatives with the aim of reducing the pressure of Temporary Accommodation costs, particularly the Housing Benefit Subsidy Loss position.

Resources Risks

7.15. Reflecting the complexity and demand risks in other areas of the council, there are an increasing level of complexity and demand risk in areas of supporting services across the Resources Directorate, this includes in areas such as Legal where reserves for management of peaks of activity will have been largely applied by the end of 2023/24 and will require review within the reserves management undertaken in the budget setting approach.

Savings at Risk

7.16. The savings programme agreed by Council in February 2023 included savings totalling £43.9 million over the medium term of which £26.2 million was attributed to 2023/24. In addition to this £26.2 million there is a further £9.3 million of savings carried forward from prior years which still require delivery.

7.17. The total savings delivery target for 2023/24 is £35.5 million.

7.18. It is currently assessed that £9.2 million of these targeted savings are at risk of not being delivered in the planned way. The current gap in savings programme delivery, largely attributed to Adults (£4.7m) and Growth and Regeneration (£3.7m), is currently reported either within service forecasts or within risk and opportunity logs.

7.19. The total savings delivery target for 2024/25 is £14.1 million (excluding any carry forward of prior year undelivered savings).

7.20. The council's current approved budget includes a planned total savings contingency (optimism bias) of £8.7 million in 23/24 rising by £1.0 million in 24/25 for variation and non-delivery of savings. It should be noted that this is prior to any requirement to mitigate in year savings for 2023/24.

Corporate Expenditure

Pensions

7.21. The latest pension fund triennial review came into effect on 1 April 2023. The council is currently almost 100% fully funded. The review reduced the deficit recovery period from 15 to 12 years. It will now remain at 12 years. There are no anticipated changes to contribution rates in either 2024/25 or 2025/26.

Capital Financing

7.22. 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.

7.23. 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 £0.5 million, meaning the threshold would be reached by 2026/27.

7.24. In reflecting on the capital trends and revenue forecast, the council is proposing to reprofile its capital programme activity for 2024/25 to 2028/29 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 £310 million. Within the same time frame, the council has only had capacity to deliver an annual programme of no greater than £200 million.

7.25. In 2023/24 the budget allocated to the programme was £362.9 million (including schemes carried forward from prior year) and the forecast outturn as at period 5 is £294.1 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. In comparison to previous year's spend profiles, an outturn of circa £200 million is anticipated. 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.

7.26. 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

7.27. Public health services are funded by a ringfenced grant to the council which for 2023/24 was £35.7 million. The grant enables the Director of Public Health to discharge their statutory duties. Where appropriate we joint fund services with other bodies and receive income from partners for this purpose The grant is likely to continue to be subject to conditions on what it funds, including a ringfence requiring local authorities to use the grant exclusively for public health activity. The council will continue to make sure that the increased cost of services is contained within the envelope provided, whilst recognising that this is an increasing challenge due to inflationary pressures.

7.28. Within the council's earmarked reserve is a Public Health ringfenced reserve of £4.6 million (as at 14 September 2023). There is a potential forecast draw down of £0.4 million in the current year leaving a balance of £4.2 million. 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)

7.29. A cumulative unmitigated deficit of £58.1 million is forecast at the end of 2023/24. This is mainly due to increased demand for Special Educational Needs provision within the High Needs Block (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 an 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 have 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 the DSG to a sustainable footing.

7.30. 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 2024/25 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.

7.31. 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 2024-25 to the ESFA, in January 2024. The early year's block of the DSG is determined by the separate national formula for early years.

7.32. On 20 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 2024/25 will be £435.89 million (excluding early years block).

7.33. The provisional allocation for Bristol (excluding early years block) is outlined in the table 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 8: DSG - Indicative Available Funding and Prior Year Comparator

Comparative Allocations	2024/25 Indicative DSG Allocation £m	2023/24 DSG Allocation £m	Change £m	Change %
Schools Block excl. growth *	343.968	333.991	9.978	2.99%
Central School Services Block	2.693	2.717	(0.024)	(0.90%)
High Needs Block	89.229	83.361	5.868	7.04%
Total	**435.890**	**420.068**	**15.822**	**3.77%**

Growth funding in schools block	No data	2.202		
Early Years	No data	37.432		
* 2023/24 Schools Block was adjusted to include Mainstream Schools Additional Grant for comparison.				

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

- The announcement has stated that funding through the mainstream schools national funding formula (NFF) is increasing by 2.7% per pupil in 2024-25, compared to 2023-24. Taken together with the funding increases seen in 2023-24, this means that funding through the schools NFF will be 8.5% higher per pupil in 2024-25, compared to 2022-23. This is based on pupil and school characteristics data from the 2023- 24 APT, which is based on the adjusted October 2022 school census data

- The provisional Schools Block allocation for Bristol has been published at £343.968 million, before growth funding, with actual allocations expected to be published in December 2023

- The provisional High Needs Block allocation for Bristol has been published at £89.229 million (a £5.9m increase from 2023/24), with actual allocations expected to be published in December 2023

- 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 further for 2024-25. The provisional Central School Services Block allocation for Bristol has been published at £2.693 million, with actual allocations expected to be published in December 2023. This is an overall reduction of £24,000. 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 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

7.35. These provisional allocations are based on current pupil data. Final allocations of the 2024/25 funding will use information from the autumn 2023 census are expected to be issued in December 2023.

7.36. For 2024/25 we will continue to set a local school funding formula. The government has stated that LAs are required to move their local formula factor values at least 10% closer to the NFF factor value, except where local formulae are already mirroring the NFF; although this requirement does not apply to the optional, locally determined factors.

7.37. 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.

7.38. 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 +0.0% and +0.5%. An MFG of +0.0% was applied for 2023/24. For 2024/25 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 2024/25.

7.39. 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 2024/25.

7.40. 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 2023/24 0.5% was transferred from the school's block to high needs block, providing £1.6 million, ringfenced to support the Education Transformation Programme. If up to 0.5% of the indicative schools block is transferred for 2024/25 this would equate to £1.6 million.

7.41. The indicative High Needs Block allocations to Bristol is £89.2 million, an indicative increase of £5.9 million (7.0%) over 2023/24's allocation of £83.4 million. This needs to be considered in the context that high needs block is experiencing cost pressures in excess of funding, of c.£18.5 million and carrying a forecast unmitigated cumulative deficit of circa £58.2 million at the end of 2023/24.

7.42. The Education Transformation Programme has been 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.

7.43. Two workstreams funded through a Department for Education Delivering Better Value (DBV) grant are starting to move from the development to the delivery phase. Forecast mitigated deficit position of £16.4 million could be achieved if benefits of transformation work currently underway, materialise. This excludes £1.0 million of potential mitigations that are currently flagged as at risk due, in part, to the delay in securing a delivery partner for workstream 2 proposals, and the need for further due diligence.

7.44. The five-year DSG forecast position is summarised in the table below.

Table 9: DSG – 5 Year DSG Forecast Position

	Outturn						
Table DSG MP: DSG Forecast Position	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income/Surplus should be shown as negative	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
Brought Forward unmitigated deficit	24,480	39,577	58,232	79,906	98,738	114,929	127,425
Total Expenditure	438,486	470,957	476,569	476,404	476,522	475,669	475,376
DSG Income	(423,388)	(452,302)	(453,275)	(455,953)	(458,712)	(461,553)	(464,480)
Schools Block 0.5% (Subject to SF Approval)			(1,619)	(1,619)	(1,619)	(1,619)	(1,619)
Funding gap carry forward to future years	**39,577**	**58,232**	**79,906**	**98,738**	**114,929**	**127,425**	**136,702**
Mitigation Proposals							
Annual Indicative Proposed Mitigations	-	(2,112)	(8,965)	(11,473)	(12,574)	(12,574)	(12,574)
DBV Stretched confidence benefits - annual	-	-	(1,035)	(5,227)	(10,526)	(14,826)	(14,826)
Total Mitigations	**-**	**(2,112)**	**(10,000)**	**(16,700)**	**(23,100)**	**(27,400)**	**(27,400)**
Mitigations cumulative	-	(2,112)	(12,112)	(28,812)	(51,912)	(79,312)	(106,712)
Funding Gap after proposed mitigations	**39,577**	**56,120**	**67,794**	**69,926**	**63,017**	**48,113**	**29,990**
In year net position deficit / (surplus)	15,097	16,543	11,674	2,132	(6,909)	(14,903)	(18,123)

7.45. Based on latest forecast (as of P05, August 2023), which was broadly in line with Newton's (DfE DBV delivering partner) forecast, it is estimated that the High Needs Block could achieve a balanced budget position in 2026-27 if DBV stretched confidence benefits materialise, which is subject to further due diligence and formal consultation. It is therefore absolutely vital that progress on mitigation proposals is monitored and delivered in a timely manner in order to restore and secure the financial health of the DSG funding in the longer term.

7.46. It is worth noting that forecast for 2023-24 and onwards are based on demand forecast (number of children in the system) and including national trend plus contingency circa 15% taking into consideration increased complexity, backlog and 10% growth based on service advice.

7.47. Whilst we continue to work with the DfE to drive the improvements required in outcomes for children with additional and special educational needs and achieve a balanced in year position, that can be sustained and demonstrable reduces the deficit, we will need to consider all potential funding sources. The council has made significant investment in the General fund budget of circa £4 million per year since 2022-23 to improve SEN service and fund Home to School Transport (HTST) and similarly has significant pressures in year of the same magnitude which will be recurrent in 2024/25 and beyond. We recognise the collaborative approach adopted to date and the significant contribution that schools have and continue to make in investing in the Education Transformation Programme. In considering future budgets, we have provisionally included the 0.5% transfer in our latest forecast, understanding this will require approval from Bristol Schools Forum.

7.48. The early years sector is experiencing significant funding pressures which if not addressed will impact on its 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.

7.49. In all of 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 2024/25 funding is expected to be issued in December 2023.

Housing Revenue Account (HRA)

7.50. The Housing Revenue Account (HRA) is a ringfenced account containing the income and expenditure relating to the council's landlord duties in respect of circa 28,600 dwellings 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.

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

7.52. 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.

7.53. The rent standard currently allows rents to increase by 1% above inflation (CPI + 1% - based on the previous Septembers CPI rate). The latest Bank of England Monetary Policy report, 9 August 2023), suggests a CPI rate of circa 7%. This would result in a maximum allowable increase in rents of 8%. However, it is worth noting that, due to other economic factors informing the current cost of living crisis, there remains the possibility of a rent cap being imposed on social landlords (as per the 7% cap applied in 2023/24). At the time of writing, there has been no indication from DLUHC as to whether or not a cap is likely to be imposed, however it remains a consideration.

7.54. As the majority of income into the HRA, decisions regarding annual rent and service charge setting will impact on the level of resource available. The current economic picture has resulted in an increase in arrears from 202/23 with overall collection rates for the year to date reducing from 98.8% to 98.0%. The increased costs for goods and services resulting from the inflationary pressures would have to be met by rents and by modifying service delivery.

7.55. 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. It is also worth noting that for the vast majority of home owners, the increase in the Bank of England Base rate from historic lows of 0.1% in 2020 to the current level of 5.25% after 14 consecutive increases, will not be felt until their fixed rate mortgage deals expire. This has the potential to lead to an increase in demand for social housing in the coming years.

7.56. The opening balance on the HRA reserve on 1 April 2023 was £108.8 million. This comprises £98.8 million HRA general reserve plus £10.0 million HRA major repairs reserve. At Period 5 an adverse variance of £3.6 million has been forecast in the revenue account. In addition to the reserves, the council can access multiple other sources of financing including grants, borrowing, developer contributions, capital and RTB receipts, revenue contributions to capital outlay (RCCO) to fund its capital programmes.

7.57. Any investment decisions will be appropriately risk assessed and based on affordability, sustainability, and optimisation of resources, with the appropriate funding profiled to match anticipated spending. A minimum HRA balance must be retained and a clear strategy outlined in approved plans for repaying new borrowing within strict time periods.

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

New Priority Investments / Reserves

7.59. 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.

7.60. Any update of the MTFP needs to be cognisant of the cost of living and inflationary national context and the need to maintain the integrity of the council's financial position and future sustainability, to support our communities.

7.61. 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.

7.62. 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. Scenario Modelling and Sensitivity Analysis

General Fund Scenarios

8.1 In line with the best practice recommended through the CIPFA Financial Management Code and reflecting the uncertainty around funding and risks remaining to the council which has a significant impact on the ability to forecast with accuracy, we are aware that the forecast at this stage is subject to change with the scale and volatility of the current climate.

8.2 Owing to these uncertainties and from the lack of clarity about what the government's plans for local government funding will mean for the council, financial projections have been prepared for three different scenarios, as follows:

- **Base-case scenario** – refers to the typical, realistic or most likely scenario
- **Best-case scenario** – refers to the most favourable or optimistic projected outcome
- **Worst-case scenario –** refers to the most extreme situation that can happen if things don't go as planned

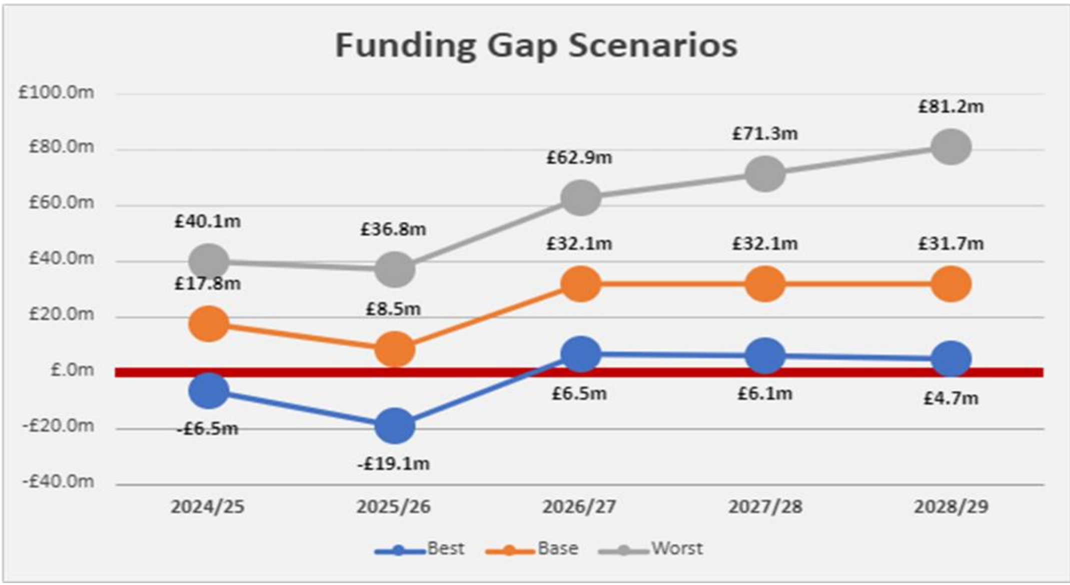
8.3 The budget approved by Council in February 2023 achieved a balanced budget across the first 3 years of the medium term, the changes that are outlined in the scenarios are in addition to the provisions made in the base MTFP model for 2024/25 to 2026/27 (as outlined in the main body of the MTFP report).

8.4 The scenarios assess the effect of changing key input variables at the same time and determine the different possible events that could occur in the future. We have also examined the effect of changing just one variable at a time and assessed which of the variables our funding gap is particularly sensitive to.

8.5 This approach produces a range of funding gap outcome scenarios as set out below, with peak funding gaps at the end of the MTFP period ranging from £4.7 million to

£81.2 million of which there is a £6.5 million surplus to a £40.1 million deficit range applicable to the 2024/25 financial year.

Figure 9: Funding Gap Scenarios



Base Case

8.6 The base case reflects a prudent approach to assessing the key assumption changes since the budget was agreed in February 2023 and indicates a peak funding gap of £32.1 million arising by 2026/27, with £17.8 million arising in 2024/25.

8.7 This ‘base’ case is what has been set out throughout this report and is the realistic scenario, with the key drivers being the recurrent net service pressures from 2023/24 being carried forward into 2024/25, combined with the emerging service pressures and assumption increases around inflation, offset by changes in assumptions around core funding.

8.8 The base case does not at this time include a review of reserves, where there are known reserve pressures around PFI and insurance, the review of reserves will aim to manage these reserves pressures in the first instance through release and redirection of other reserve flexibility before impacting the MTFP revenue projections.

Table 10: Base Case Indicative Funding Gap

2023/24	Original Budget	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
483.523	Original Forecast Budget Requirement	4%	501.934	511.288	523.045	536.786	536.786
Recurrent & New Service Pressures							
2023/24	Recurrent & New Service Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m

-	Recurrent & New Service Pressures	100%	18.077	21.036	21.384	21.743	23.102

Corporate Pressures

	Corporate Emerging Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
		%	£m	£m	£m	£m	£m
	Pay Award & NIC	5.0%	3.785	3.605	3.399	3.188	8.937
	Inflation & Levies	5.0%	5.487	15.329	21.259	22.802	30.883
	Capital Financing	5.5%	0.254	0.507	0.507	0.507	0.507
	Other Corporate Pressures		1.400	1.435	1.471	1.508	1.545
	Total Corporate Pressures		**10.926**	**20.876**	**26.637**	**28.005**	**41.873**
	Total Pressures		**29.003**	**41.912**	**48.021**	**49.748**	**64.975**
	Indicative Budget Requirement		**530.937**	**553.200**	**571.066**	**586.534**	**601.761**

2023/24	Core Funding	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
(483.523)	Original Forecast Available Funding	3.8%	(501.934)	(511.288)	(514.914)	(527.009)	(527.009)
Funding Changes							
-	Collection Fund Outturn	0%	(1.993)	-	-	-	-
-	Additional Council Tax	0%	(0.924)	(4.952)	(9.365)	(9.798)	(23.141)
-	Council Tax Second Home Premium	0%	2.872	-	(0.030)	(0.062)	(0.095)
-	Business Rates Multiplier/ Growth / 100% Retention	0%	(13.230)	(27.331)	(11.769)	(12.424)	(12.451)
-	New Homes Bonus	0%	(1.599)	-	-	-	-
-	Additional Grants	0%	3.633	(1.080)	(2.839)	(5.122)	(7.405)
-	**Total Additional Core Funding**		**(11.240)**	**(33.363)**	**(24.003)**	**(27.405)**	**(43.091)**
	Indicative Core Funding		**(513.174)**	**(544.651)**	**(538.917)**	**(554.414)**	**(570.100)**
	Base Case Funding Gap		**17.762**	**8.549**	**32.149**	**32.119**	**31.660**

Best Case

8.9 If we take an imprudent view of assuming the best possible outcome in the case of every variable factor within the MTFP we reach a 'best' case scenario. Even in the best case this still presents a budget pressure peaking at £6.5 million toward the back end of the MTFP period, although a short-term favourable position in the earlier years.

8.10 It should be noted that many of the key factors are outside of the council's control, most notably core and specific funding and increases to government funding allocations for the council.

Table 11: Best Case Indicative Funding Gap

2023/24	Original Budget	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
483.523	Original Forecast Budget Requirement	3.81%	501.934	511.288	523.045	536.786	536.786

Recurrent & New Service Pressures

2023/24	Recurrent & New Service Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
-	Recurrent & New Service Pressures	90%	16.974	19.933	20.281	20.640	21.999

Corporate Pressures

	Corporate Emerging Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
		%	£m	£m	£m	£m	£m
	Pay Award & NIC	3.0%	(0.467)	(1.892)	(3.418)	(5.004)	(0.630)
	Inflation & Levies	3.0%	1.387	8.851	14.257	15.614	23.055
	Capital Financing	4.0%	0.185	0.369	0.369	0.369	0.369
	Other Corporate Pressures		1.120	1.148	1.177	1.206	1.206
	Total Corporate Pressures		2.224	8.477	12.385	12.185	24.000
	Total Pressures		**19.198**	**28.409**	**32.665**	**32.825**	**45.999**
	Indicative Budget Requirement		**521.132**	**539.697**	**555.710**	**569.611**	**582.785**

2023/24	Core Funding	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
(483.523)	Original Forecast Available Funding	4%	(501.934)	(511.288)	(514.914)	(527.009)	(527.009)
			Funding Changes				
-	Collection Fund Outturn	0%	(3.433)	-	-	-	-
-	Additional Council Tax	0%	(4.223)	(9.156)	(14.491)	(15.919)	(30.335)
-	Council Tax Second Home Premium	0%	2.872	(0.603)	(0.651)	(0.701)	(0.754)
-	Business Rates Multiplier/ Growth / 100% Retention	0%	(15.876)	(32.797)	(14.122)	(14.909)	(14.941)
-	New Homes Bonus	0%	(1.599)	-	-	-	-
-	Additional Grants	0%	(3.401)	(5.000)	(5.000)	(5.000)	(5.000)
-	Total Additional Core Funding		(25.660)	(47.556)	(34.265)	(36.529)	(51.030)
	Indicative Core Funding		**(527.594)**	**(558.844)**	**(549.179)**	**(563.538)**	**(578.039)**
	Best Case Funding Gap		**(6.463)**	**(19.147)**	**6.531**	**6.072**	**4.746**

Worst Case

8.11 If we assume the worst outcome in the case of each of the key variable factors we reach the 'worst' case view. This would indicate a peak funding gap of £81.2 million by 2028/29, with £40.1 million gap in 2024/25. This scenario assumes inflation levels remain higher and do not fall as rapidly as anticipated in the market, along with a poor financial settlement. This position also assumes that service pressures will be 20% higher than currently assessed.

Table 12: Worst Case Indicative Funding Gap

2023/24	Original Budget	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
483.523	Original Forecast Budget Requirement	3.8%	501.934	511.288	523.045	536.786	536.786
Recurrent & New Service Pressures							
2023/24	Recurrent & New Service Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
-	Service Pressures	120%	20.589	24.140	24.557	24.988	26.619
Corporate Pressures							
	Corporate Emerging Pressures	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
		%	£m	£m	£m	£m	£m
	Pay Award & NIC	6.0%	7.795	8.860	9.837	10.889	17.912
	Inflation & Levies	8.0%	8.403	21.862	31.704	37.365	50.290
	Capital Financing	6.0%	0.277	0.554	0.554	0.554	0.554
	Other Corporate Pressures		1.680	2.411	3.546	5.346	8.262
	Total Corporate Pressures		**18.155**	**33.687**	**45.640**	**54.153**	**77.017**
	Total Pressures		**38.744**	**57.826**	**70.198**	**79.141**	**103.636**
	Indicative Budget Requirement		**540.678**	**569.114**	**593.243**	**615.927**	**640.422**
2023/24	Core Funding	Variation	2024/25	2025/26	2026/27	2027/28	2028/29
£m		%	£m	£m	£m	£m	£m
(483.523)	Original Forecast Available Funding	3.8%	(501.934)	(511.288)	(514.914)	(527.009)	(527.009)
Funding Changes							
-	Collection Fund Outturn	0%	(1.595)	-	-	-	-
-	Additional Council Tax	0%	7.617	(0.752)	(4.250)	(3.699)	(15.986)
-	Council Tax Second Home Premium	0%	2.872	0.603	0.591	0.578	0.564
-	Business Rates Multiplier/ Growth / 100% Retention	0%	**(9.574)**	**(19.763)**	**(8.882)**	**(9.354)**	**(9.373)**
-	New Homes Bonus	**0%**	**(1.599)**	-	-	-	-
-	Additional Grants	0%	**3.633**	**(1.080)**	**(2.839)**	**(5.122)**	**(7.405)**
-	Total Additional Core Funding	**0%**	**1.355**	**(20.992)**	**(15.380)**	**(17.597)**	**(32.200)**

	Indicative Core Funding		**(500.579)**	**(532.280)**	**(530.294)**	**(544.606)**	**(559.209)**
	Worst Case Funding Gap		**40.099**	**36.835**	**62.949**	**71.321**	**81.213**

Funding Gap Sensitivities

8.12 Sensitivity and considers the key cost drivers assumed and their respective financial impact. Key areas that drive this variation between base, best and worst cases include:

- New and Recurrent Service Pressures – the best case assumes only 90% of the pressures identified through the MTFP will crystalise, with the worst case assuming a further factor of the highlighted risk would come through at a 20% greater pressure.

- Pay Pressures - the best case assumes that pay inflation can be contained at the 3% previously assumed at budget setting, whereas the worst case scenario looks at a potential for pay to escalate to a 6% requirement.

- Inflation & Levies – the base case builds in assumptions of £5.5 million inflationary assessment, with a worst case assessment rising to a pressure of £8.4 million, whilst the best case reduces assumptions in 2024/25 to £1.4 million. These reflect a variety of fluctuations around inflation percentages for particular areas of contract inflation including; Adult Social Care, Children's Social Care, Home to School Transportation, Temporary Accommodation, waste, PFI and energy.

- Funding - key sensitivities are around additional council tax and business rates, with the former assuming that the social care precept isn't available over the full 5 year period of the MTFP for the worst case scenario and on business rates where in the worst case scenario the assumption around the 100% retention is at risk in the future years and will not come through for the years to 2025/26 as outlined as anticipated for the base case.

9. Financial Health Indicators

9.1 In developing the budget strategy for 2024/25 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. The resilience index points to pertinent areas for scrutiny in shaping budget strategy with Social Care, Reserves and Gross External Debit highlighted.

9.2 In that respect the three areas, as set out below, are based on figures using updated 2021-22 data (last year's report used 2020-21).

Figure 10: CIPFA Financial Resilience Index Results Breakdown for Bristol

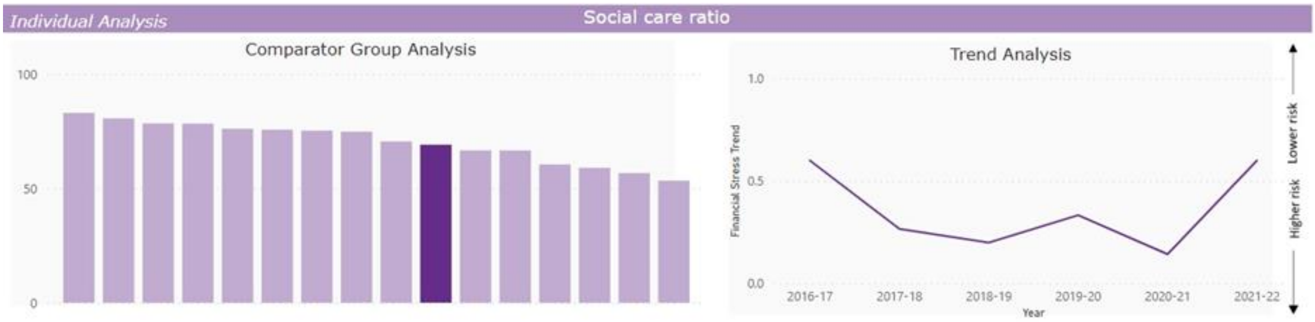
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	5.78	100.00	100.00
Level of Reserves	5.16%	38.56%	124.87%
Change In Reserves	-34.16%	50.84%	246.17%
Interest Payable/ Net Revenue Expenditure	0.28%	5.14%	20.67%
Gross External Debt	£2,000k	£575,888k	£1,651,158k
Social care ratio	28.70%	69.11%	93.25%
Fees & Charges to Service Expenditure Ratio	3.11%	19.43%	28.68%
Council Tax Requirement / Net Revenue Expenditure	38.80%	59.94%	89.69%
Growth Above Baseline	-4.19%	2.21%	61.75%

9.3 The highest area of risk to the financial resilience of the council compared to other similar authorities is the proportion of budget spent on 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.

Social Care Ratio

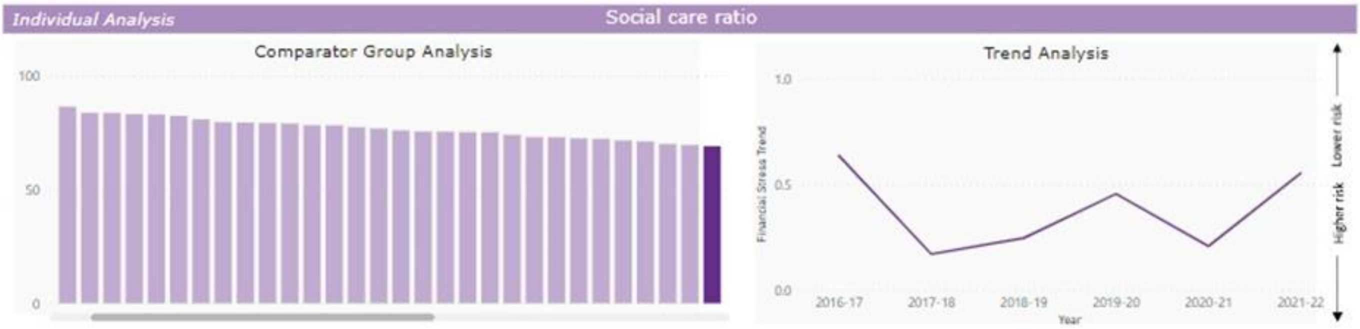
Nearest neighbours

Figure 11a: Bristol City Council Social Care ratio (statistical neighbour comparisons)



Unitary Authorities

Figure 11b: Bristol City Council Social Care ratio (unitary authorities comparisons)



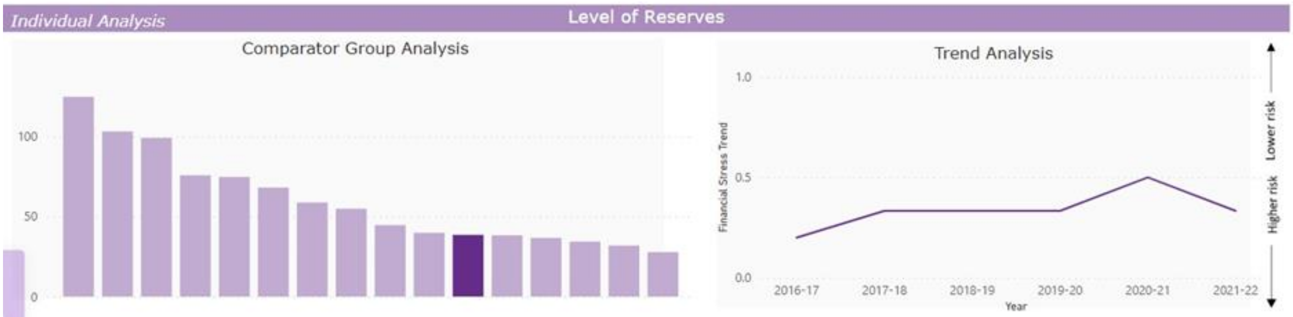
9.4 The social care ratio reflects the proportion of expenditure on social care. For most council's this means a higher percentage of net revenue expenditure that is used to support this area than on anything else. The CIPFA resilience index illustrates that although Bristol's ratio is favourable to statistical neighbours and to unitary authorities, there are variations within the analysis, further benchmarking using strategic partner's analytical capacity is helping to deepen analysis and will help inform the budget setting process.

Level of Reserves

9.5 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.

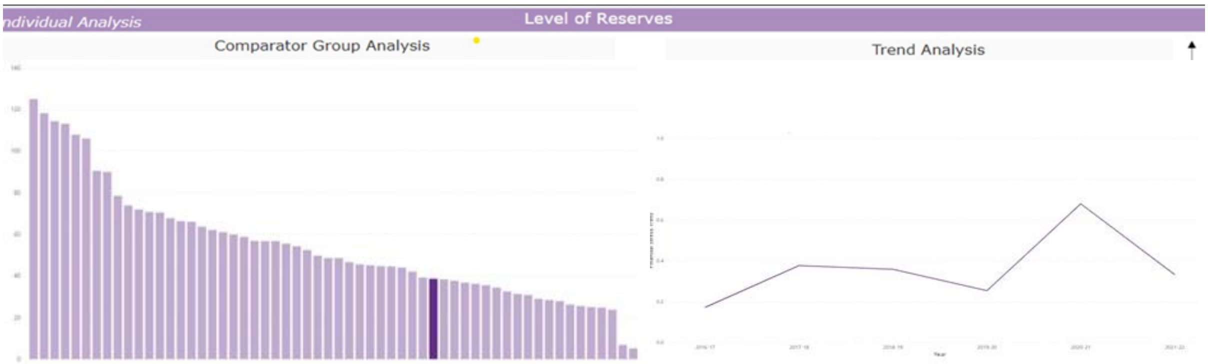
Nearest Neighbours

Figure 12a: Bristol City Council Level of Reserves (statistical near neighbours)



Unitary Authorities

Figure 12b: Bristol City Council Level of Reserves (unitary authorities)



9.6 The benchmarking analysis above shows that the council currently has reducing useable reserves, after an improvement across the period of the pandemic the council's levels of reserves have moved into a higher risk boundary. The analysis when compared to both nearest neighbours and unitary authorities provides a consistent picture. This indicator is of high importance in terms of the council's ability to respond to extreme shocks, such as that recently experienced.

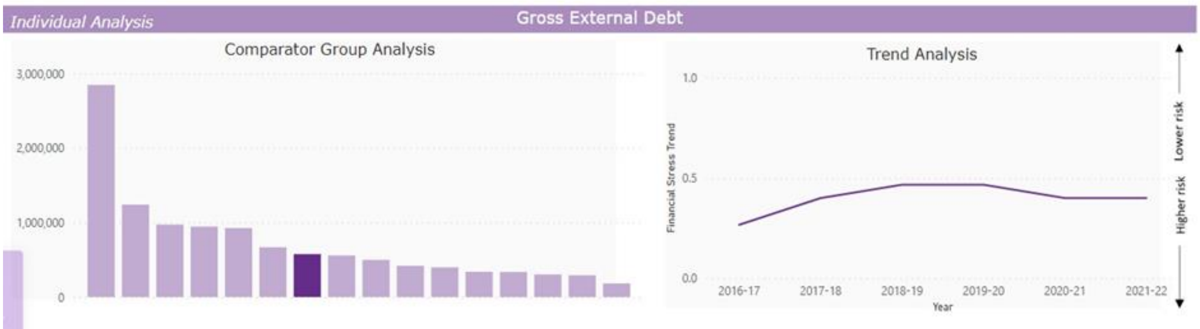
9.7 The council's need for greater resilience (as above) and the others risk emerging from the MTFP, need to be considered in the annual refresh of the reserve policy.

Gross External Debt

9.8 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.

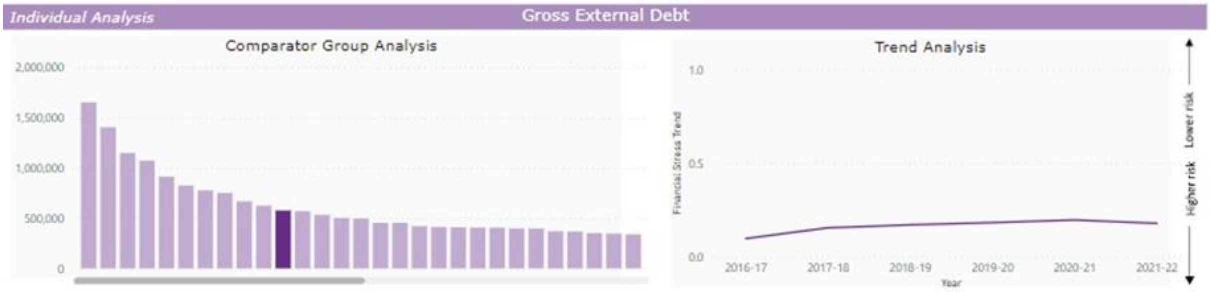
Nearest Neighbours

Figure 13a: Bristol City Council Gross External Debt Ratio (statistical neighbours)



Unitary Authorities

Figure 13b: Bristol City Council Gross External Debt Ratio (unitary authorities)



9.9 The council's CFR at 31 March 2023 was £940 million. It was financed by Gross External Debt of £564 million and Internal Borrowing (use of the council's surplus cash resources) of £376 million.

9.10 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 which is published with the 2024 Medium Term Financial Plan 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.

9.11 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 affordability approach as part of the development of the 2024/25 Capital Strategy and Treasury Management Strategy.

10. Our Financial Principles

Putting Strategy into Practice

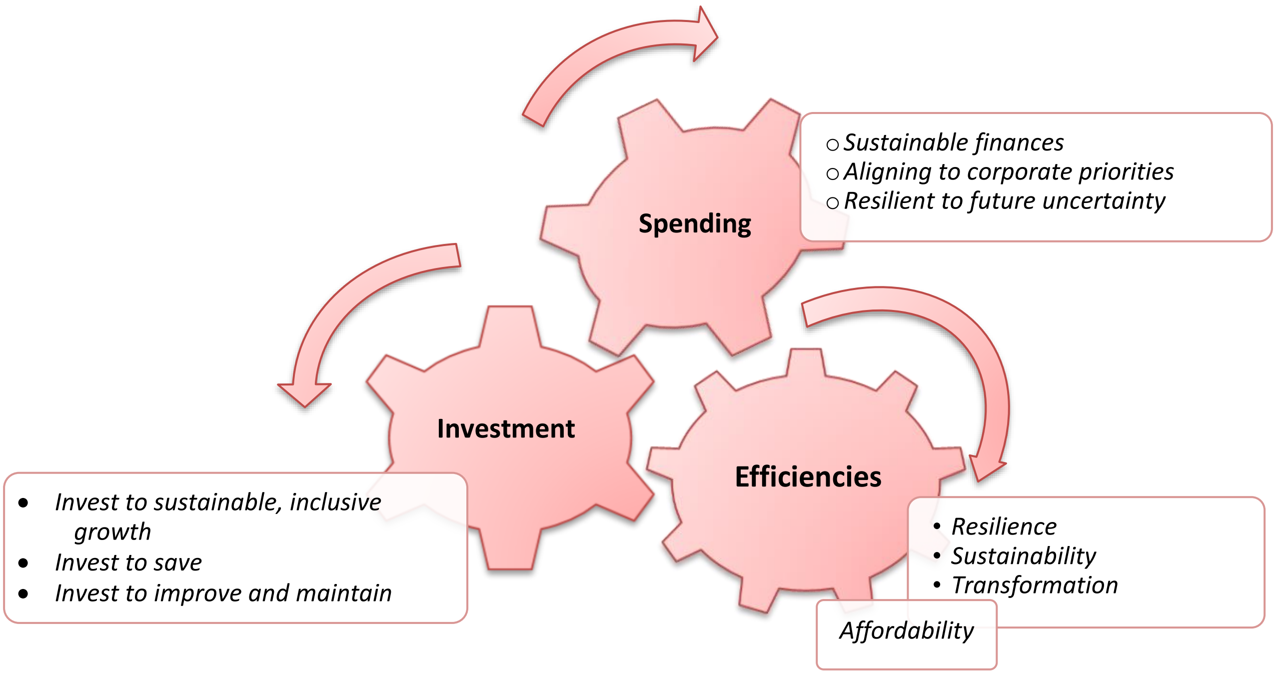
Our financial principles provide a guide and good practice to support the council's financial management arrangements for delivery of a sustainable and balanced budget.

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 3 and provide the tools for a consistent, transparent approach to the annual budget review.

10.1. The council is continuing to face a challenging set of set of sustained economic and financial challenges related to the cost of living that continues to put ever increasing pressure on the council's financial sustainability and resilience which inevitably underpins key aspects of the council's future strategy. To be resilient to future uncertainty we are proposing to focus on nine key principles.

Figure 14: Resourcing principles centred around spending, investment and savings



10.2. 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. The pertinent principles in delivering the budget strategy proposed for 2024/25 are expanded below for spending and efficiency principles, noting that the investment principle focus on themes covered in more depth within the Capital Strategy.

Principles on Spending

Aligning spend with corporate priorities

Consider our obligations in providing services and challenge all existing spend in the context of strategic priorities

10.3. If we are to deliver the priorities of the council we will need to pay close consideration to our obligations in providing all services. We need to question whether services are delivering outcomes towards the city vision.

10.4. Where services are a statutory requirement of the council, are we delivering more than is required of us? In some cases, we may wish to deliver over-and-above, as long as there is a clear strategic outcome that aligns to the council's priorities.

10.5. We will challenge all existing spend in the context of strategic priorities, ensuring that council spending is driven by outcomes and results.

Being resilient to future uncertainty

Be prudent, build flexibility for the uncertain financial outlook

10.6. There is significant uncertainty in the financial outlook which means when committing to spending we need to ensure we retain an element of flexibility for the changing environment in which we operate, for example, this needs to be considered when entering into new long term contracts.

Exit strategy to be developed for all external funding.

10.7. In order to make the most of opportunities we may be able to bring in additional external funding however to ensure we build resilience in future uncertainty it is essential that we develop exit strategies for any services funded by external grants.

Approach to budget setting

Identify and implement all endorsed savings and efficiencies.

10.8. Council services have already been challenged to produce savings in recent years, and many services have already succeeded in making a good start on reducing their budgets. With financial pressures as they are, it is paramount that we maintain programmes to optimise service delivery and ensure value for money wherever possible.

10.9. Within the current financial climate, we will need to make the most of every opportunity to generate savings and efficiencies. As part of setting the 2023/24 budget we identified £42 million of savings over the medium term to start to bridge the medium term gap. It is important that any savings identified and endorsed are fully implemented.

We will maintain balanced budgets over the medium term.

10.10. In order to be prepared and able to respond to changes in the external environment, it is important we set out a balanced budget over the medium term. This is not set in stone but will form the basis of setting the annual budget each year and give us more ability to be resilient to future uncertainty.

We will only use taxation where necessary and justifiable.

10.11. Local Authorities have flexibility to increase Council Tax rates by up to 2% - 5% annually; this generates an increase in revenue to fund services. However, we recognise increasing Council Tax can have a big impact on those on low incomes across the city. Therefore, we will only use taxation where necessary and justifiable.

There will be no additional spend unless matched by savings or income

10.12. In maintaining a balanced budget it is important that no additional spending commitments are made unless it can be matched by savings or additional income.

Principles on Efficiencies

It is clear that efficiencies will need to be made to deliver a balanced budget. By analysing our current strengths and weakness we have developed several key themes and principles.

Some of these will deliver cashable savings to the bottom line and some will be enablers. It is recognised that delivering to these principles will not be easy and will take resource and sometimes difficult decisions around the model of services to ensure outcomes are met within a reduced cash envelope.

Resilience	Sustainability	Transformation
• Fraud and Avoidance • Build Resilience • Capital Financing • Balance Sheet Review	• Commercialisation • Traded Services • Fees and Charges • Third Party Spend	• Productivity and Workforce • Partnership Working and Early Intervention • Digital Transformation • Maximising our Assets

Financial Resilience

Financial Resilience is about ensuring we are providing efficient services and maximising all income opportunities possible. It is also about how we manage our financial risk to be more in control of changes in the financial and economic environment.

- Financial Resilience is focussed on Fraud and Avoidance.

Fraud and Avoidance

10.13. It is vital that the council retains the maximum revenue possible in order meet our financial pressures. We would want to ensure that we are collecting Council Tax and business rates wherever possible. We need to review our processes for tackling fraud and avoidance in order to ensure optimum compliance without a dramatic increase in spending on enforcement, which should be a last resort.

10.14. In ability to identify new tax payers / avoiders and in the instance of Highways Green Claims - those person/s responsible for causing damage to public infrastructure and where identified more commercial approach prior to any write-offs outside the system.

10.15. Income may not be optimised (ROI) if reducing resources are not targeted

- We will proactively be using data intelligence for successful revenue collection
- Data cleansing, analytics and technology to locating new payers / contacting defaulters and getting the right bill, to the right person, at the right time

Balance Sheet Review

10.16. The council holds ear-marked reserves that are set up either for a time-limited programme, to act as contingency against a specific risk, or to carry forward a service underspend. It is possible that some of the reserves we currently hold could be released if programmes are complete and there is no further planned spending, or if risks have reduced for risk-based reserves.

Sustainability

Sustainability means preparing a finance strategy that is valid now and in the future. With a high degree of uncertainty ahead, it is essential that the council's finances are as robust as possible. This has been broken down into the following areas:

- Third party expenditure
- Fees and charges

Third Party Expenditure

- Taking a council wide category management approach to procurement
- Focusing on supporting local businesses to access the council's supply chain, and considering social value, sustainability and the environment in our procurement activity

10.17. Despite improvements in spending over recent years there is potential further enhancements in how we purchase goods and services.

10.18. The council must engage in financial transactions with a wide range of providers, however the sheer volume of supplier data held in finance systems highlights significant inefficiencies. Service provision through strategic procurement offers opportunities to deliver greater value for money.

10.19. Through our procurement and commissioning the council is able foster the local economy and add social value, and the council should recognise this as a responsibility.

Fees & Charges

- All charges will be increased annually in line with general inflation, unless it can be demonstrated such an increase will harm service usage levels.
- We will review all overhead charges and fees and charges annually and eliminate subsidies which don't align to the Corporate Plan and emerging Target Operating Model. All charges will cover the total cost of providing the service.
- Where charges are set in statute but do not fully recover costs, we will undertake a detailed review of services and make representation to the relevant body.
- Targeted reviews to explore all opportunities in areas where evidence indicates our income is lower than our peers.

10.20. Authorities are able to set fees and charges in accordance with legislation governing the level at which fees can be set. If charges are set such that income doesn't match cost to run the service, this indicates the service is subsidised by the council.

10.21. It is an accepted principle that licensed activities should be funded on a cost-recovery basis, paid for by those benefiting from the licensed activity, rather than drawing on the public purse. In of our services, fees are set without understanding the full costs of the service and, as such, current subsidies aren't clear in the budget and don't necessarily align to outcomes desired by the council.

10.22. Financial regulations require services to review their fees and charges annually. Some areas of charging haven't been inflated for several years and are creating pressure on the budget due to inflating costs. As well as considering the effect of inflation, services must also consider how they can recover the total cost of the service, if legislation allows it.

10.23. Where charges do not recover the full cost due to statutory requirements, there should be a more robust process to lobby the regulatory body. All councils are facing similar financial challenges at the moment and it is important that central government assumes the correct level of financial responsibility for delivery of statutory services at a local level.

10.24. Be more 'entrepreneurial' in our approach, actively engaging in market development and market shaping where no such market currently exists and using insight to manage specification and demand.

Transforming Services

Over recent years significant savings have been made through efficiencies in the way services operate. Though there are always opportunities to go further it becomes increasingly more difficult to make savings and those which there are may require significant investment to drive out.

Therefore, it is important to focus on transforming our approach to services to deliver significant savings.

- Productivity and Workforce
- Maximising use of our Assets

10.25. Where fit for purpose we will seek optimise the infrastructure that we have already invested in, including right person, right place, right time – automation where possible.

Maximising Use of Our Assets

10.26. Assets are held to support a strategic need or for a net financial return that supports the financial resilience of the council.

10.27. Treasury Management - a working balance will be retained, residual funds invested to generate an increased return on investment.

10.28. We will leverage other public and private sector investment for new market developments.

10.29. We will proactively seek a mixed portfolio quick wins / early adopters to create a revolving fund.

Affordability

10.30. It must be recognised the significant financial pressure on local authorities and despite all the work in identifying savings and efficiencies through the above measures there could come a point that there is insufficient funding to deliver all services a*ligned to the* Corporate strategy.

10.31. As a last resort difficult decisions will need to be made regarding the priority outcomes and stopping services which deliver these outcomes.

11. Budget Strategy

11.1. The council has historically identified over £300 million of savings over the last decade, which means the challenge to identify service efficiencies and reductions within the bounds of our legal requirements is becoming ever more challenging.

11.2. 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 and inflation having continued at levels previously unseen, we now need to consider based on the current evidence and trajectories it is likely that growth will continue in the areas of demand in the period covered by this plan.

11.3. As at September 2023, we estimate a peak funding gap of £32.1 million. With such a significant challenge, our council budgets will not be able to be balanced without an approach to increasing external incomes and driving an improved application of external funding aligned to transformation and council objectives, as well as stretching and delivering on transformation to improve outcomes and improved value for money, which will need to include a clear focus on investing capital where it will be of benefit to the ongoing revenue position of the council, as well as continuing the drive around efficiencies.

11.4. A range of measures are being recommended which will be explored and where appropriate details further developed for presentation to Council as options for consideration in closing the identified budget gap. It is proposed to prioritise a three-pronged approach, noting that should sufficient options not be identified it may be necessary to expand the scope of areas being reviewed, this should not be considered an exhaustive list as further options may need to be considered if a residual gap remains:

- Transformation - maximising the focus on our existing transformation programmes, driving a blend of improved outcomes and best value, to expand the opportunities being developed. This will include optimising our assets in relation to invest to save proposals.

- Income Generation – be more business-like and secure more external resource, including options around fees and charges, income generation and improved debt management and collection.

- High-Cost Services - targeted reviews and deep dives in areas identified as high cost through benchmarking evidence. Explore opportunities from those deemed best in class and welcome staff led ideas within these areas.

11.5. A range of measures are being recommended for to be explored and where appropriate further develop the details for presentation to Council as options for consideration in closing the identified budget gap. It is proposed to prioritise a 3-pronged approach, not that this is not an exhaustive list:

- Transformation - maximising the focus, driving a blend of improved outcomes and best value from our existing transformation programme, expanding the opportunities being developed, including optimising our assets in relation to invest to save proposals
- Income Generation – Be more business-like and secure more external resource, including options around fees and charges, income generation and debt management
- High Cost Serves - Targeted Reviews – In identified areas (e.g. where benchmarking indicates opportunities) - cost reductions, service reviews (cessations / reductions) and efficiencies

11.6. There are many different scenarios and improved practices that will support the council in bridging the gap. These are outlined in the Financial Principles (above and within Annex 2). Below are key areas that will align with the approach being proposed in this strategy:

- 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 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 maintain sufficient reserves and balances to manage known risks and events and maintain financial resilience

Budget Timetable

11.7. Outlined below is the indicative timetable for the development of the 2024/25 Annual Budget for the General Fund including Public Health, Housing Revenue Account, Dedicated Schools Grant and the council’s 2024/25 – 2033/34 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

MEETING	DATE	CONTENT / PURPOSE
Cabinet	Tue 03 Oct 23	**MTFP and Capital Strategy**
DSG Schools Budget Consultation	Tue 03 Oct 23	Consultation Opens
Resources Scrutiny Commission	12 October 5pm	To inlcude: Collection Fund and Council Tax base
Full Council	**Tue 31 Oct 23**	**MTFP and Capital Strategy Approval**
HRA Public Budget Consultation (tbc)	Wed 01 Nov 23	Consultation Opens (indicative)
General Fund Public Budget Consultation	Wed 01 Nov 23	Consultation Opens
DSG Schools Budget Consultation	Tue 14 Nov 23	Consultation Closes
Public Resources Scrutiny #1	Tues 21/11/2023 4pm	Budget Scrutiny - Cabinet / Executive #1 (2xdirectorates)
Public Resources Scrutiny #2	Thurs 23/11/2023 4pm	Budget Scrutiny - Cabinet / Executive #2 (2xdirectorates)
HRA Public Budget Consultation (tbc)	Mid December 2023	Consultation Closes (indicative)
General Fund Public Budget Consultation	Mid December 2023	Consultation Closes
Full Council	**12-Dec-23**	**To include: Collection Fund and Council Tax base**
Cabinet	**Tue 23 Jan 24**	**Recommend Mayors Budget - Council**
Public Resources Scrutiny #3	Tues 30/1 4pm	Budget Scrutiny - Cabinet / Executive #1 (2xdirectorates)
Public Resources Scrutiny #4	Thurs 1/2 4pm	Budget Scrutiny - Cabinet / Executive #2 (2xdirectorates)
Full Council (1st Meeting)	**20/02/2024 - 2pm**	**Budget Approval**
Full Council (2nd Meeting)	**Wed 28 Feb 24 - 2pm**	**Budget Approval (Reserve)**

12. Reserves

The council holds reserves as part of its approach to maintaining a sound financial position, planning effectively for our known and potential one-off liabilities and to enable it to be resilient to future shocks, stressors and emergency situations that it may encounter in the future.

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

12.1. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992, which requires councils to "have regard" to the level of reserves needed to meet future expenditure when calculating a budget. In accordance with the existing statutory and regulatory framework, the Chief Financial Officer (Section 151 Officer), is responsible for advising the council on the level and nature of reserves it should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose and must take account of the relevant local circumstances.

12.2. Approval of the reserves policy is one of several related decisions in the formulation of the council's MTFP and the level of useable reserves held is also one of the suite of tools utilised to demonstrate that there are no material uncertainties about whether the council remains as a going concern over each of the years of the medium term plan.

12.3. Reserves can be held for three main purposes:

- A contingency to cushion the impact of cost arising from unexpected or emergency events such as unforeseen financial liabilities or natural disasters – (general reserves)

- 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, to help cushion the impact of uneven cash flows – (general reserves)

- A means of building up funds, to meet identified spending commitments, known or predicted liabilities, to manage timing differences between the receipt of income and expenditure being incurred, in accordance with accounting rules - (earmarked reserves)

12.4. Reserves will only be used for the purpose for which they were created and the level of reserves will be reviewed periodically but as a minimum in the preparation of the Medium Term Financial Plan, Annual Budget setting and again as part of the closure of accounts process.

12.5. The key considerations and principles followed in establishing the reserves policy are:

- The strategic, operational and financial risks facing the council

- The overall financial standing of the council (level of borrowing, debt outstanding, income collection rates, etc.)

- The robustness of the estimates in the council's MTFP

- The council's track record in budget and financial management and delivery of approved savings

- The proportion of budget spent on needs and demand led services which can be difficult to reduce in the short term, and the council's capacity to manage in-year budget pressures

- The strength of the financial information and reporting arrangements

- The adequacy of the council's insurance arrangements to cover major unforeseen risks

- The extent to which specific risks are supported through earmarked reserves and contingencies

12.6. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option; however, it is not prudent for reserves to be deployed to finance recurrent expenditure. The council should be particularly wary about using one-off reserves to deal with shortfalls in current core funding particularly in a climate of such financial uncertainty.

12.7. Usable reserves are broadly considered cash based (with the exception of the DSG deficit reserve) and as at 1 April 2023, the trend in the council's usable reserves and forecast in general and earmarked reserves was as follows:

Table 14: Usable Reserves

Reserve Name As at 31 March	2021 £m	2022 £m	2023 £m
General Reserve	(35.666)	(40.074)	(29.525)
DSG Deficit Reserve	10.004	24.650	39.681
Schools Reserve	(7.528)	(5.604)	0.758
Earmarked Reserve	(330.445)	(288.568)	(236.061)
Total Revenue Reserves	**(363.635)**	**(309.596)**	**(225.146)**
Schools Capital	(3.079)	(3.554)	(3.554)
Capital Receipts	(78.492)	(79.775)	(82.543)
Capital Grants Unapplied	(3.080)	(3.555)	(3.131)
Total Capital Reserves	**(84.651)**	**(86.884)**	**(89.228)**
Total All Funds	**(448.286)**	**(396.480)**	**(314.374)**

Table 15: General and Earmarked Reserves (Indicative Outlook)

2023/24 £m		2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
(126.611)	GF Earmarked Reserves	(122.367)	(107.776)	(88.619)	(67.939)	(66.892)
(29.525)	General Reserves	(28.525)	(28.525)	(28.525)	(28.525)	(28.525)
(4.635)	Public Health Reserves	(4.314)	(4.314)	(4.314)	(4.314)	(4.314)
39.681	DSG Deficit Reserve	57.555	67.691	68.699	61.752	47.862
0.758	Schools Reserves	(0.339)	(0.339)	(0.339)	(0.339)	(0.339)
(109.450)	HRA (Incl.Major Repairs) Reserve	(55.181)	(56.570)	(50.673)	(51.113)	(51.562)
(229.782)	**Total General and Earmarked**	**(153.171)**	**(129.833)**	**(103.771)**	**(90.478)**	**(103.770)**

12.8. While the council will not hold reserves above those assessed as required for the medium and long term plan, a decreasing trend as outlined in the tables above indicates a reduction in the buffer to meet short term needs and could potentially increase the dependency on long-term borrowing to fund expenditure as the fall back on reserves for internal borrowing, (which the council has benefited from for many years), to meet future large-scale investment projects, may not be available.

12.9. Some of these usable reserves are subject to restrictions on their usage. These include:

- Schools Reserve – for use in schools as governed by the Scheme for Financing Schools.
- Capital Grants Unapplied – specific capital projects, restricted by the grant terms and conditions.
- Capital Receipts – proceeds from the sale of assets and in accordance with regulations these funds can only be used for capital purposes or set aside to repay debt and additional flexibilities provided via the Flexible Use of Capital Receipts policy.

12.10. The HRA reserve policy requires a HRA major repairs reserve of at least £10 million and a HRA general reserve of at least £21 million (after provisions for any known liabilities) and the current balances are within these parameters. The General Fund 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.

12.11. The table below shows the current year, forecasted general fund reserve opening balance for each year of the MTFP and the percentage of net budget and turnover days, based on the indicative net budget requirement as outlined in this report and the indicative net budget adjusted to the core funding available. The percentage of net budget ranges from 5.56% to 4.74% and turnover days from 22 to 17 across the period of the MTFP, indicating that a transfer to general reserve of at least £1.0 million each year would be required to maintain a minimum of circa 5.5% and 20 days turnover cover across the period of the plan.

Table 16: General Fund assumptions as % of net budget and turnover days

2023/24 £m		2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
(29.525)	General Fund Reserve @ 1 April	(28.525)	(28.525)	(28.525)	(28.525)	(28.525)
483.523	Indicative Net Budget Requirement	530.937	553.200	571.066	586.534	601.761
6.11%	**General Fund % of net budget**	**5.37%**	**5.16%**	**5.00%**	**4.86%**	**4.74%**
22	**Turnover Days**	**20**	**19**	**18**	**18**	**17**
483.523	Indicative Core Budget Available	513.174	544.651	538.917	554.414	570.100
6.11%	**General Fund % of net budget**	**5.56%**	**5.24%**	**5.29%**	**5.15%**	**5.00%**
22	**Turnover Days**	**20**	**19**	**19**	**19**	**18**
Indicative increase to maintain c. 5.5%		**(1.000)**	**(2.000)**	**(3.000)**	**(4.000)**	**(5.000)**

12.12. The updated reserves policy is enclosed at Annex 2 and sets out the current level of general and earmarked reserves and the management and governance of the funds to increase stewardship, transparency and reporting. The level of the general reserve will continue to be reviewed annually as the iterative MTFP work progresses, to ensure it is sufficient for the level and type of risks to which the council is exposed.

13. Risk Management

13.1. The Medium Term Financial plan needs to be seen in the context of significant inherent uncertainty for the council in terms of future funding, spending, investment and efficiency assumptions. The council's current and future financial position is subject to a number of threat risks, the two prominent ones regularly reviewed are:

- Failure to be able to reasonably estimate and agree the financial envelope available both annually and in the medium term and the council is unable to set a balanced budget.

- The council's financial position goes into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the council's reserves policy.

13.2. 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.

13.3. Change is happening at an increasing pace nationally and locally 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.

13.4. We continually seek to develop and refine our approach to risk management in order to provide a more effective response to risks while also embedding risk management across the council, our decision-making and service planning processes.

13.5. In developing the 2024/25 budget to be presented to Council for approval we will consider the key corporate and service risks that we face, how we propose to address these risks and the sufficiency of the financial provisions made, and contingencies and reserves held, to ensure a balanced, sustainable and resilient position can be achieved.

14. Consultation and Cumulative Equalities Impact Assessment

14.1. The council will continue to work 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.

14.2. 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.

14.3. 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: Reserves Policy

1. Legislative and Regulatory Framework and Role of the Chief Financial Officer

1.1. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the annual budget requirement.

1.2. 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 council's financial reserves when setting a Medium Term Financial Plan (MTFP) 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.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Financial Officer to report if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the council will not have the resources to meet its expenditure in a particular financial year.

1.3. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer to advise the council about the level and nature of reserves to be held. In establishing and approving the MTFP, the council will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines.

1.4. The policy covers the principles for when reserves will be held, the appropriate categories for reserves, the Chief Financial Officer recommended minimum levels of reserves and the management and governance of the funds including the criteria for the release of reserves.

1.5. This policy note is applicable to the following reserves:

- The General Fund Reserves
- Earmarked Reserves
- Housing Revenue Account Reserves
- Schools Reserves
- Dedicated Schools Grant Reserve
- Unusable Reserves

2. Definition and Purpose of Reserves

2.1. Reserves are an important part of the council's financial strategy and are held to create long-term financial resilience and stability. The council cannot borrow to finance day-to-day spending, and so it must either operate within the agreed directorate cash limits or seek approval to draw down reserves to ensure that the annual spending does not exceed the available annual revenue budget.

2.2. The application and use of reserves supports the achievement of service delivery and improvements and can support any in year service budgetary pressures or budget pressures arising from funding reductions. 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. The council must 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.

Unusable reserves

2.3. Unusable reserves arise out of the interaction of legislation and proper accounting practice, either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. These reserves are technical in nature, not resource backed and cannot be used for any other purpose.

Usable Reserves

2.4. Usable reserves are cash-backed reserves that can be used to fund future expenditure. Some reserves however will be subject to restrictions on their usage. These include Capital Grants Unapplied, Capital Receipt, Schools Reserves, Public Health and Housing Revenue Account Reserves and a brief explanation of these different categories of reserves is provided at Table 18.

Unallocated General Reserve

2.5. The purpose of the council's General Reserve will be to:

- meet costs arising from unplanned or emergency events such as unforeseen financial liabilities or natural disasters
- act 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 financial years.

2.6. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not prudent for reserves to be used to fund shortfalls in current funding.

2.7. There is no prescriptive guidance on minimum or maximum reserves. In assessing the adequacy of reserves and in making a recommendation as to the level of general reserves which should be maintained, the Chief Finance Officer considers carefully:

- The strategic, operational and financial risks facing the council
- The overall financial standing of the council (level of borrowing, debt outstanding, income collection rates, etc.)
- The robustness of the estimates in the council's MTFP
- The council's track record in budget and financial management and delivery of approved savings
- The proportion of budget spent on needs and demand led services which can be difficult to reduce in the short term, and the council's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The adequacy of the council's insurance arrangements to cover major unforeseen risks
- The extent to which specific risks are supported through earmarked reserves and contingencies

2.8. **The Council's General Fund Reserves at 1 April 2023 was £29.525 million.**

2.9. The following two financial indicators are useful to measure the level of funds being retained for unforeseen expenditure:

- Unallocated general reserve as a % of net revenue budget - this measures the relationship between the general reserve and the annual net revenue budget. Whilst comparisons can be difficult because each council faces its own particular set of circumstances and risks. Councils that did set a minimum level, they typically range between 5% and 10% of the net revenue expenditure.

- Unallocated general reserve days turnover - this measures the number of days the council would have financial cover if it needed to utilise solely general reserves to fund day to day expenditure. Based on 2022/23 data, the average for the council was 22 days turnover covered by unallocated reserves

2.10. **This policy recommends that an unallocated general reserve be retained of at least; 5% to 6% of the net revenue budget, subject to the further analysis of the sensitivity and risks associated to the financial plans, to which the council is exposed as the medium term budget is built and the inclusion of a turnover days measure, to provide a wider context of impact**.

Earmarked Reserve

2.11. The council recognises the need to hold and maintain earmarked reserves but also recognises the opportunity cost of holding balances as reserves. For this reason it is important to set out clearly, and regularly review the framework through which reserves are managed. Management of reserves is a key tool of the council's overall MTFP and providing financial resilience over the longer term. Key to this is the need to ensure resources are effectively focussed on priorities and risk can be managed.

2.12. The purpose of the council's Earmarked Reserves is:

- a means of voluntary and prudently building up funds to meet known future or predicted spending commitments and / or liabilities; and
- to manage timing differences between the receipt of income and expenditure being incurred, in accordance with accounting rules.

2.13. When establishing reserves the council must adhere to the Code of Practice on Local Authority Accounting (the CODE) and in particular the need to distinguish between reserves (set aside for future liabilities) and provisions (mandatory set asides for actual liabilities existing).

2.14. Earmarked reserves will be considered on a case by case basis. In approving any new earmarked reserves the council needs to identify the purpose of the reserve, and the procedures for its management and control. The creation of any new earmarked reserves will be subject to Cabinet approval and the Chief Financial Officer will also ensure that there are clear protocols for their establishment and use. These reserves will only be used for the purpose for which they were created and will be reviewed periodically.

2.15. **The council's Earmarked Reserves at 1 April 2023 was £126.611 million (including Public Health of £4.6m).** The council's earmarked reserves are currently categorised by type and summarised in the following way:

Figure 1: Description of Reserve Types

Reserve Type	Opening balances as at 1st April 2023	Description
Capital Investment	(38.582)	The capital reserve is maintained to provide funding for the Council's capital and commercial investments.
Risk and Legal	(14.172)	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	(55.312)	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.
Business Transformation	(5.811)	Amounts required for expenditure on business activities, projects and capacity that is critical to delivering the Councils' improvement agenda.
Financing	(1.808)	Includes PFI sinking fund, grant income carried forward in accordance with accounting regulations.
Service	(10.926)	Amounts set aside to finance specific projects or to meet known expenditure plans, for example election reserve for local elections.
Total Earmarked Reserves	(126.611)	

Reserve Type	Opening balances as at 1st April 2023	Description
Capital Investment	(38.582)	The capital reserve is maintained to provide funding for the Council's capital and commercial investments.
Risk and Legal	(14.172)	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	(55.312)	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.
Business Transformation	(5.811)	Amounts required for expenditure on business activities, projects and capacity that is critical to delivering the Councils' improvement agenda.
Financing	(1.808)	Includes PFI sinking fund, grant income carried forward in accordance with accounting regulations.
Service	(10.926)	Amounts set aside to finance specific projects or to meet known expenditure plans, for example election reserve for local elections.
Total Earmarked Reserves	(126.611)	

2.16. The level of the general and earmarked reserve will continue to be reviewed annually as MTFP work evolves into the annual budget and again as part of the Closure of Accounts process, to ensure it is sufficient for the level and type of risks to which the authority is exposed. and the council will not hold significant balances above those required by the MTFP.

HRA Reserve

2.17. The Housing Revenue Account (HRA) is kept separate from other local authority income and expenditure streams, to ensure the council house rents are not used to subsidise general expenditure and prevent the general council taxpayer subsidising council housing. Therefore, these funds set aside as reserves can only be used to fund expenditure relating to the HRA. The council will continue to use a range of funding sources and mitigations to ensure the HRA 30 year business plan remains affordable.

2.18. The HRA Interest Cover Ratio (ICR) is set at a minimum of 1.25. The minimum ICR will be supplemented by an HRA Major Repairs Reserve (see below). of at least £10 million (approx. 1 year's interest cost) and a general HRA reserve of £21 million 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.

2.19. Councils with an HRA must have a Major Repairs Reserve. The Major Repairs Reserve is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt.

2.20. **The council's total HRA Reserves at 1 April 2023 was £109.450 million**

Schools Reserves

2.21. These are unspent balances of budgets delegated by the local authority to individual schools. There are specific regulations to deal with school balances which include a provision that the council should require a business plan from the governing body on the use which they intend to make of excess balances in cases where the surplus balance exceeds 5% (secondary schools) or 8% (nursery, primary, and special) of the school's budget share as at 31 March each year. Schools that fail to submit their plans on how they wish to spend their excess balances will be subject to immediate clawback of those excess balances (see Scheme for Financing Schools).

2.22. **The council's Schools Reserves at 1 April 2023 was £0.758 million deficit**

Dedicated Schools Grant (DSG)

2.23. Reserve holding the surplus balance on the Schools Budget ringfenced for the DSG to be carried forward for utilisation in future years.

DSG Deficit Reserves

2.24. Statutory Instrument SI) No.1212 of 2020: laid before Parliament and came into force on 29 November 2020. amended the current accounting regulations to allow all DSG deficits to be carried over in a separate dedicated account and therefore not at a charge to the council's revenue account for the term of the override. The SI is time-limited to 31 March 2026 and the council therefore would have to ensure there are adequate usable reserves to cover any DSG deficit and a clear plan for sustainability when preparing the council's accounts beyond 2026.

2.25. **The council's DSG Deficit Reserve at 1 April 2023 was £39.681 million**

Public Health Reserve

2.26. Unspent Public Health grant is placed in a separate, ring-fenced Public Health (PH) General reserve. The conditions of the grant allow that if at the end of the financial year there is any underspend this can be carried over, as part of a public health reserve, into the next financial year. In utilising those funds the next year, the grant conditions will still need to be complied with.

2.27. **The council's Public Health Reserves at 1 April 2023 was £4.635 million**

Capital Receipts Reserves

2.28. This account holds the proceeds from the sale of assets and in accordance with regulations; these funds can only be used for capital purposes.

2.29. **The council's Capital Receipts Reserves at 1 April 2023 was £82.543 million**

Capital Grants Unapplied Reserve

2.30. This account holds the grants and contributions received towards capital projects for which the authority has met the conditions set by the grant funding body. The funds will remain in this account until the expenditure to be funded by that grant has been incurred. The funding will be restricted by the grant terms and conditions to be matched against eligible expenditure. It cannot be used to fund other expenditure, or the authority could be required to pay the funding back.

2.31. **The council's capital Grant Unapplied Reserves at 1 April 2023 was £3.131 million**

3. Management and Governance

3.1. The council's usable 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 Chief Financial Officer or Deputy Section 151 Officer is required in order to apply the use of earmarked reserves to support revenue expenditure.

3.2. The approved Business Transformation Reserve will be the Corporate Leadership Board's tool for managing additional resource and commissioned capacity required to support the delivery of the council's approved savings programme and project pipeline that is critical to delivering the Council's improvement agenda.

3.3. 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 Chief Financial Officer. This has been set at £0.100m, the exception being where reserves have specific grant or legal conditions.

3.4. 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.

3.5. Approval arrangements to be as follows:

- Directors will be the designated officer in each Directorate.

- Directors and Heads of Service via their relevant Finance Business Partner are required to apply to the Chief Financial Officer / Deputy Section 151 Officer to:
    - Establish a new reserve, specify the intended use and to demonstrate their plans for use of such a reserve over the period of the MTFP.
    - Any contributions to or from earmarked reserves.
    - Any forecasted overspend.

- Cabinet Board approval is required for the creation of new earmarked reserves, upon recommendation from the Chief Financial Officer, and where approved the planned use shall be reflected in the development of the MTFP.

- Any request for reserve funding must first explore whether existing budgets, or external funding sources can be used for the proposal, accepting this may require a change in priorities if existing budget are used.

- Subject to the point above the Chief Financial 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 a new Cabinet approval upon recommendation of the Chief Financial Officer.

Reserve Proforma

3.6. 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.)

- a profile of expected movements and an end date – at which point any balance should be transferred to the general reserve

3.7. If there is a genuine reason for slippage, then the pro forma will need to be updated at the next available review.

3.8. 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.

Periodical Reviews of Reserves

3.9. A periodic review (at least annually) of each earmarked reserve is to take place between the Chief Financial 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.

3.10. The reviews will seek to ensure earmarked reserves with spending that is uncertain, in timing or cost, do not hold more than necessary as the spending needs may never arise or may cost less than the sum set aside. All reserves are to be reviewed at least annually and consider:

- The rationale for keeping each reserve, with reference to the original purpose for the creation of the reserve and the council's future spending plans

- The funds needed, including an expected minimum and maximum for risk based reserves and whether or not the reserve should be released in full or in part or require topping up

- How long reserves have been held, and projections for using them, which should then be appropriately recorded and monitored thereafter

3.11. Particular attention will be paid in the annual reviews to those reserves whose balances have not moved over a twelve-month period and non-ringfenced reserves with planned profiles which have had no movement in 2 years, will be returned to the centre to the general reserve.

Reserves Reporting and Monitoring

3.12. The short-term use of reserves may be agreed by the Chief Financial 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.

3.13. Any surplus reserves will be redirection to general reserve in the light of the budget forecast and any unforeseen emerging risks and pressures associated with that forecast.

3.14. The following principles will be applied by the Chief Financial 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 as outlined in this policy or is above the delegated authority of Cabinet, will require the approval of Full Council

- 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

3.15. Part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible this may lead to a lower level of reserves being required where appropriate action to mitigate or remove risks has been successfully undertaken. it could be appropriate to consider reducing the level of reserves to avoid unnecessary holding of reserves.

3.16. For general and earmarked reserves information will be reported to Cabinet quarterly, showing the current level of reserves and movements in reserves for noting and or approval as part of the budget monitoring process.

3.17. Details of the forward strategy for reserves needed to support the council's medium and long-term spending plans will be included in the annual budget report and all movements during the course of the year and effect of over or underspending on reserves will be reported at the end of the financial year in the budget outturn report and financial statement of accounts.

3.18. 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 approval.

Annex 3: 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 statutory duties and obligations in providing services.

Being resilient to future uncertainty

- We will be prudent; taking into account the uncertain financial and economic outlook, by building flexibility into future procurement and commissioning plans and developing exit strategies for all externally funded activities.
- Maintain sufficient reserves and balances to manage known risks and events and maintain financial resilience.

Maintaining sustainable finances as a priority

- No additional in-year spend unless matched by savings or income.
- Implement all endorsed savings and efficiencies unless replaced by alternative ones
- We will maintain balanced budgets over the MTFP cycle.
- Invest in agreed priority areas that also look to generate future revenue savings or income streams
- Grant reductions fully passported

Investment Principles

Capital Programme

- We will take a long term perspective on capital investment and operate a clear and transparent corporate approach to the prioritisation of all capital spending.
- We will adopt good governance in how we approve and amend the capital programme, scrutinise decisions relating to capital spend and the delivery of the capital projects.
- We will ensure that investment is prudent, affordable and sustainable over the medium term.
- We will ensure the first call for financing is against external generated grants, public and private sector contributions, with the balance of funding from the council's internally generated resources and then external borrowing, to reduce the cost of servicing debt.

Capital Investments

- Invest for sustainable, inclusive economic growth: We will expand capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges, sustainably across the City
- Invest to save: We will invest to support delivery of essential services and generate positive revenue returns
- Invest to maintain: We will improve and maintain the condition of council assets that have a clear business and operational need, to a standard that meet ongoing legal and statutory duties and work towards creating a carbon neutral estate by 2030.
- 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 offering subsidies with clear alignment to 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 positive rate of returns and these should bring 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.
- Council funded partnership contributions should be subject to the same level of diligence and 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 as per the council's capital and treasury management strategy.

Fraud, Cost Avoidance and Recovery

- We will proactively use data intelligence for successful revenue collection as well as getting the right bill, to the right person, at the right time.
- Through better gathering of evidence at source, and robust calculation of fee rates consistently applied in our charging, we will minimise the need to write off invoiced amounts outstanding.
- Continue to review and develop the corporate debt management policy and processes that enable a single view of the debtor across all systems, reducing duplication of debt collection activity without compromising revenue and facilitates a fairer and compassionate way of supporting debtors back to financial stability.
- We will cleanse data and use analytics and automation to locate and recover debt from 'those that can pay'.

Balance Sheet Management

- We will actively manage the council's key balance sheet items 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, aligned to minimising unnecessary budget growth for future maintenance works.

Capital financing, Investments and Borrowing

- We will not increase the indicative prudential borrowing commitment in the annually approved capital programme unless the council can make an evidenced and positive return on its 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.

Transforming Services

Workforce & Productivity

- Develop the right organisational workforce design that enables delivery of corporate priorities, including structure, pay and grading framework, skills 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 actively consider opportunities where automation or digital delivery mechanisms are more appropriate.
- Services should fund their own service pressures wherever possible e.g. inflationary uplifts, unless there is a binding contractual agreement that cannot be re-negotiated).

Maximising Asset Utilisation

- Assets held must support a strategic need or offer a positive net financial return that supports the financial resilience of the council.
- We will adopt a corporate landlord approach transferring the management and maintenance of all property assets from the service departments to the centralised function, taking a holistic view of property, deliver economies of scale, opportunities for co-location, rationalisation where appropriate and ensure assets are managed in a professional, efficient and effective manner.
- We will invest in the development of an asset management and valuation system, with clear accounting standards.
- 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 work with our joint venture partners, City Leap, and other partners to facilitate investment to deliver our net-zero carbon ambitions and use methods of appraisal that take into account carbon impacts.
- We will seek to leverage optimum funds from our estate including opportunities for private sector / pension fund investment where this provides best value.

Digital Services

- Easy, engaging, and inclusive: We will provide easier digital access to council services and encourage people to use it. Take a user-centred approach to design and maximise accessibility. Take action to improve digital inclusion.
- Simple, stable, and secure: We will work in a prioritised and systematic way to simplify and modify our digital estate to make it as secure, resilient, and reliable as practical.
- Well-used and used well: We will Support colleagues to make the best, fullest use of the tools and technologies available to them, developing high levels of digitally skilled collaboration. Provide robust data and insights to ethically improve effectiveness and efficiency.
- Ready to partner, willing to share, and able to innovate: We will adopt the right technologies, systems, processes, culture, and governance to provide a safe and productive environment for wider collaboration and problem-solving using technology.

Partnership Working and Earlier Intervention

- We will invest in capacity building in community, local and regional partners to support delivery of strategic priorities and reduce costs.
- 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.
- Capacity building should not be developed to simply mirror what the council already does with a transfer of the same budget and 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 demand and 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 an increase at least in line with general inflation, unless it can be demonstrated that such an increase will harm service usage levels.
- Services operating on a cost-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 a 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 encourage and enable suppliers to contribute to Social Value and health and sustainability requirement 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.
- 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 with shared benefits and liabilities.

Entrepreneurial Approach

- We will be more 'Entrepreneurial' in our approach to delivery and commissioning.
- We will actively engage in market development and market shaping where no such market currently exists and using insight and innovation to explore opportunities to address unmet needs and demand.
- We will invest and use our financial strengths and trusted brand to deliver a positive financial return and 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 consider services more appropriate for trading activity with an agreed rate of 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 of the MTFP; including divestment where non-priority or lower priority outcomes are no longer cost-effective or affordable.