

|                          |   |  |                          |
|--------------------------|---|--|--------------------------|
| <b>Subject:</b>          | <b>Draft General Fund Budget and Resources update 2022/23</b> |  |                          |
| <b>Date of Meeting:</b>  | <b>2 December 2021</b>  |  |                          |
| <b>Report of:</b>        | <b>Acting Chief Finance Officer</b>                           |  |                          |
| <b>Contact Officer:</b>  | <b>Name:</b>  | <b>Jeff Coates</b>   | <b>Tel: 01273 292364</b> |
|                          | <b>Email:</b>   | <a href="mailto:jeff.coates@brighton-hove.gov.uk">jeff.coates@brighton-hove.gov.uk</a> |                          |
| <b>Ward(s) affected:</b> | <b>All</b>  |  |                          |

**FOR GENERAL RELEASE**

**1 PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report provides an update on the resource position for 2022/23 to 2025/26 as far as it is known including any changes in assumptions and the key impacts of the Chancellor's 3-year Spending Review 2021 announcement. It also includes revised estimates of demographic and cost trends based on the latest information and forecasts. This includes updated tax base forecasts although final estimates will not be available until January 2022.
- 1.2 The Spending Review 2021 was a 3-year announcement which purported to increase Local Government Spending Power by 3% in 2022/23. However, this includes funding for social care reforms which will be matched by new costs. Removing this shows that Spending Power has increased by 1.8%. This is some way short of current and anticipated demand and inflationary pressures in 2022/23.
- 1.3 A key point to note in the City Council's budget position is that the one-off Covid-19 grant awarded for 2021/22 (£8.023m) was used to balance the recurrent General Fund budget for 2021/22. While some aspects of the council's finances are expected to recover in 2022/23, including fees & charges, rents and taxation, the loss of £8.023m is a substantial sum to cover, particularly given that new estimated cost pressures of over £12m are now projected in 2022/23.
- 1.4 The announcement of a 3-year Spending Review makes the position for the council very clear for the next few years. The level of resources is now known for a period of years and is not likely to significantly fluctuate. This makes the task of balancing the budget over the period both clear but very challenging as there is a large budget shortfall in 2022/23 and further, albeit lower, predicted budget shortfalls in later years.
- 1.5 The scale of the 2022/23 budget shortfall is such that achieving the necessary savings in one financial year could be destabilising as well as undeliverable due to the time and capacity required to implement change and undertake necessary consultation and engagement. The council will therefore need to plan its budget over a multi-year Medium Term Financial Strategy by achieving greater savings in later years of the MTFs period to ensure that the position can be brought into balance by the end of the period. However, there are limitations on the extent to which savings can be deferred which is driven by the level and availability of

reserves. The report suggests adopting a 4-year MTFs planning period which had previously been used by the council prior to successive 1-year Spending Reviews and the pandemic.

- 1.6 While a 4-year planning period can aid management of the challenging financial situation, it also carries additional risks. In particular, any non-achievement or under-achievement of savings, or any over-estimate of resources (e.g. taxation) in early years will then place even greater pressure on later years, and without strong financial management and governance, large deficits could quickly build up beyond manageable levels, potentially placing the authority in an unsustainable financial position.
- 1.7 This makes for a difficult balancing act as the council must avoid making counter-intuitive savings that could result in greater long-term costs, for example, reducing investment in proven preventative services, while it will also wish to continue to invest in Corporate Plan priorities, for example, Housing and Carbon Neutral programmes, and addressing inequality.
- 1.8 In summary, the Spending Review, increasing cost pressures and additional pay costs have now crystallised the council's financial situation and it now needs to make clear and potentially difficult choices to avoid financial instability.
- 1.9 While the Spending Review is a high level announcement of resources, the detailed allocations for each authority come through the provisional Local Government Finance Settlement which is not normally made available until mid-December each year. The full impact of the settlement as well as the full set of General Fund and HRA budget proposals and Equality Impact Assessments will come to the February Policy & Resources Committee and Budget Council as normal.

## **2 RECOMMENDATIONS:**

That the Policy & Resources Committee:

- 2.1 Notes the updated forecasts and latest resource estimates set out in the report.
- 2.2 Notes the Draft Budget Strategies and first draft savings at Appendix 1.
- 2.3 Notes the draft Equality Impact Assessments (EIAs) at Appendix 2 and notes that final EIAs will be provided to February Policy & Resources Committee and Budget Council.
- 2.4 Notes the predicted budget gaps set out in paragraph 4.22 totalling £27.655m over the 4-year period, including £18.005m in 2022/23.
- 2.5 Agrees to adopt a 4-Year planning period for its Medium-Term Financial Strategy.
- 2.6 Notes that updated financial data and information from central government regarding the Local Government Financial Settlement (LGFS) may impact further on the development of budget proposals for 2022/23.

## **3 FINANCIAL CONTEXT AND RISKS**

- 3.1 In 2016/17 the council adopted a 4-year planning regime to reflect good financial planning practice and ensure that budget shortfalls (gaps) were known well in advance and could be planned for, in terms of identifying the necessary savings, in good time. Unfortunately, the advent of restricted, one year Spending Reviews for 2020/21 and then in response to the pandemic in 2021/22, meant that budget

planning necessarily reverted to an annual process due to the removal of any certainty over future resources.

- 3.2 Central Government is well aware that local authorities cannot effectively plan for or manage the associated impacts of one-year Spending Review announcements and has recognised this in opting to provide a 3-year Spending Review announcement this time around. The Spending Review is still subject to local interpretation through the Local Government Financial Settlement, which will provide the detailed allocations to individual authorities, however, it does provide a much clearer picture of the resources, including Adult Social Care precepts, available to local authorities over the next few years.
- 3.3 This, however, comes with its own challenges. The report details below that the Spending Review, while providing some additional resources, falls considerably short of enabling the City Council to close its predicted budget shortfalls, which remain very challenging. Knowing the resources likely to be available for the next 3 years is helpful for planning but also means that there is unlikely to be significant deviation from this financial envelope over the period. There is therefore no opportunity to defer or delay decision-making, and the challenge of balancing the budget over the medium term needs to begin in earnest with the 2022/23 budget.
- 3.4 For this reason, the council is advised to adopt (revert to) a 4-year planning period for its Medium-Term Financial Strategy (MTFS) which would cover the Spending Review period plus one year. Given the scale of financial challenge over the MTFS period, the council may need to borrow further from its reserves in the short term to balance its budget over the MTFS period. The committee will note that, alongside the annual budget, the MTFS will therefore become a more important and substantial financial plan as it will be the mechanism by which the council can demonstrate and articulate its plans to achieve financial balance and sustainability over the medium term.
- 3.5 Failure to effectively manage the council's finances will ultimately impact on service delivery and has serious reputational and governance implications, potentially leading to government intervention. The financial impact of the pandemic has brought financial resilience to the fore and the threat of interventions such as Statutory Section 114 notices, which temporarily halt non-critical spending and contracts, have become reality for a number of authorities. There are also many other authorities (nine to date) that have stopped short of Section 114 notices but have been forced to apply to government for 'capitalisation directions' to enable them to use capital receipts or borrowing to fund annual revenue costs in the short term. External Auditors are therefore paying very close attention to the financial health of local authorities including monitoring their reserve levels and financial plans.
- 3.6 Locally, as reported and evidenced through its targeted budget monitoring reports (TBM), this council is experiencing a number of pressure points that present high risks and need to be heeded in its financial planning, including:
- The likely requirement to plan for the repayment of reserves over the medium term period, including reserves of £1.471m used to 'financially smooth' the 2021/22 budget;
  - Cover for Collection Fund taxation losses (deficits) experienced in 2020/21 due to the pandemic which government allowed to be spread over 3 years starting in 2021/22;

- The numbers of people supported in, and the cost of, Emergency and Temporary Accommodation and associated support services has been increasing year-on-year and has been further exacerbated by the pandemic. Although short term funding has been received to meet accommodation costs through the pandemic, if people are not successfully 'moved on' to sustainable accommodation or settings, this will increase baseline numbers further and the impact on the council's budget will be potentially very substantial over the next few years.
- The council's increasing reliance on income from fees and charges, particularly parking and permit revenues. Fees & Charges are related to visitor and economic activity and behaviours which can change over time, potentially affecting income levels (up or down).
- Similarly, the council's commercial property portfolio, which provides substantial rental income of around £9m, is known to be highly geared toward the retail sector, which had been declining prior to the pandemic and may now be further impacted in the medium term;
- The council is also highly reliant on suppliers and providers who may be impacted, at least in the short term, by Brexit and/or the pandemic either in terms of the cost of supplies or cost of labour, or the impact on supply chains. Suppliers/providers may also be impacted by the National Minimum Wage increase (6.6%) and/or the National Insurance increase. This could result in increased contractual costs filtering through to the council.
- Increased pay costs resulting from: inflationary pressures which are driving up pay awards; the cost of increasing the council's minimum pay grade (including the Real Living Wage increase); the increasing cost of market supplements due to national and local labour supply issues, and; the cost of resolving the recent industrial dispute.

3.7 Managing the council's finances, i.e. achieving financial balance, over a medium term financial period is a realistic approach given the scale of the financial challenges but carries additional risks. As mentioned above, borrowing from reserves to financially smooth the budget over a period of years is not uncommon practice but it is still not desirable. There are also two distinct types of financial smoothing i) borrowing from reserves to cover one-off pandemic costs that are unlikely to recur or continue, or ii) borrowing from reserves or balances to balance a recurrent (annual) budget gap. These are discussed further below:

- One-off Covid-19 impacts:** The 2022/23 budget process will attempt to separately identify cost pressures that are expected to be short-term and related directly or indirectly to the pandemic. Ideally, one-off resources would be identified to cover these costs but if this is not possible in full, a modest level could be smoothed by borrowing from reserves and then providing for annual repayments over a suitable timeframe. The timeframe will depend on the reserves available and when they are needed for their original earmarked purpose.
- Imbalanced recurrent revenue budget** – financial smoothing to address annual budget gaps can only be undertaken for a short period over the MTFS period because it is an imbalance of ongoing, recurrent expenditure and will therefore require greater recurrent savings in later years to replenish reserves – any decision to defer savings to a later year/s must be supported by robust plans, including recognition that failure to achieve savings in later years may lead to drastic consequences or measures including:

- Depletion of reserves;
- Spending controls and restrictions (including a S114 notice);
- Unplanned cuts or reductions to services;
- Unplanned staffing reductions through redundancy, voluntary severance and vacancy controls;
- Diversion of capital receipts from capital investment and the unplanned sale of assets to shore up revenue (i.e. capitalisation) in the short term.

3.8 Further discussion of the Medium Term Financial Strategy and a potential approach for managing the budget over the next 4 years is discussed in Section 5 below. The following section details the outcome of the Spending Review alongside updated estimates of other costs and resources.

## **4 RESOURCES AND PLANNING ASSUMPTIONS 2022/23**

### **Spending Review 2021 (SR21)**

4.1 The Spending Review 2021 announced on the 27 October 2021 covers a 3-year period and provides key information that will inform the provisional Local Government Finance Settlement (LGFS) for 2022/23, expected to be provided in mid-December.

4.2 The key headlines from the announcement are as follows:

- £1.6bn pa increase in local government core funding from 2022/23 (i.e. no further increases over the 3 years). Locally, if the allocation is based on previous settlements this would equate to a £6.280m pa increase in core funding assuming that all existing Social Care Grants continue at their current level. However SR21 does not include separate compensation for the 1.25% National Insurance increase/social care levy which is a £1m pa cost for the General Fund. The Budget does refer to compensation for the public sector but this does not include local government.
- An allowable 1% Adult Social Care precept for each year over the 3-year period which could provide approximately £1.6m in 2022/23, growing to £1.7m by 2024/25.
- The increase in core funding is separate from the £5.4bn funding to implement Social Care Reforms announced in September. The government estimate £3.6bn of the £5.4bn will be passed to local government over the 3-year period. The remaining £1.8bn will be allocated to improving the wider social care system including the quality and integration of care. However, this funding is expected to be more than matched by new costs.
- The council tax referendum principles will not be confirmed until the LGFS, however, government has stated the intention for this to remain at 2%.
- There are a range of reliefs announced to business rates with the most significant being a 50% relief for the Retail Hospitality and Leisure sector (up to a cap) and the freezing of the business rates multiplier. The government has stated that councils will be fully compensated for the loss in Business Rates revenue from these measures.
- As part of the government's commitment to end rough sleeping, SR21 provides £639m per annum by 2024/25. No detail is available regarding allocation of this funding but it is expected that, as a minimum, it should see

the continuation of existing funding streams including Homeless Prevention Grant and Rough Sleeper Initiative (RSI) funding.

- The government announced an increase to the National Minimum Wage of 6.6% to £9.50 from April 2022. However, the council currently pays the Real Living Wage which will increase from £9.50 to £9.90 (4.2%) and which will need to be provided for within the estimates.
- £560m has been allocated for Youth Services over the next 3 years targeted at areas most in need through the Youth Investment Fund.
- The government has allocated £2.6bn over the 3-year period to provide school places for children with special educational needs and disabilities. This is assumed to be capital investment to support councils in providing places locally. The method of accessing and distributing this funding is not yet known.
- The government intends to overhaul the New Homes Bonus grant but the current allocation methodology will remain for 2022/23 although it will be a one-year allocation. Therefore, any additional resources through this grant will need to be treated as one-off.
- The council currently receives £0.950m through Troubled Families grant (now renamed Supporting Families). The government has included additional funding for Supporting Families of circa £170m nationally over the 3-year period but will not announce how funding will be allocated, and if it will at least be at the current level, until 2022 and therefore a proportion of this grant is potentially at risk.

4.3 Overall, the Spending Review could potentially improve the council's resources when compared with the resource assumptions reported to this committee in July as shown in the table below and reflected in the table at paragraph 4.20:

| <b>Table 1:<br/>Budget Planning – Funding Assumptions</b>                               | <b>Assumed<br/>Funding<br/>£m</b> | <b>Estimated<br/>SR2021<br/>£m</b> |
|---|-----------------------------------|------------------------------------|
| Additional core funding   | 0.000                             | 6.280                              |
| Additional Social Care funding  | 2.000                             | 0.000                              |
| Additional Social Care Precept at 1% (if approved)                                      | 0.000                             | 1.580                              |
| Additional ongoing support for Covid-19 impact  | 3.000                             | 0.000                              |
| Supporting (Troubled) Families Grant continuation                                       | 0.946                             | 0.946                              |
| Homelessness/Rough Sleeping   | 1.000                             | 0.000                              |
| National insurance/Care Levy increase   | 0.000                             | -0.986                             |
| <b>Total</b>  | <b>6.946</b>                      | <b>7.820</b>                       |
| <b>Increase in Resources compared with July<br/>Budget Planning Funding Assumptions</b> |                                   | <b>0.874</b>                       |

#### Updated Service Pressures & Investments

4.4 The planning assumptions for demographic, service and cost pressures and planned investments from July have been updated and included in the following table:

| <b>Table 2:<br/>Investments &amp; Service Pressures</b> | <b>Original<br/>Recurrent</b> | <b>Latest<br/>Recurrent</b> | <b>Latest<br/>Short-Term</b> |
|---|-------------------------------|-----------------------------|------------------------------|
|---|-------------------------------|-----------------------------|------------------------------|

|  | <b>Pressure Funding 2022/23 (July)</b> | <b>Pressures Identified 2022/23 (Nov)</b> | <b>Pressures (including Covid)</b> |
|--|--|---|------------------------------------|
|  | £m                                     | £m  | £m                                 |
| Health & Adult Social Care   | 4.000                                  | 3.212                                     | 0.000                              |
| Families, Children & Learning (incl. Adults Learning Disabilities) | 4.600                                  | 5.171                                     | 0.000                              |
| Environment Economy & Culture                                      | 0.000                                  | 1.437                                     | 1.200                              |
| Housing, Neighbourhoods & Communities                              | 2.500                                  | 1.235                                     | 1.683                              |
| All Other Services   | 1.500                                  | 1.411                                     | 0.000                              |
| Corporate Plan Priorities/Climate Change                           | 1.000                                  | 1.000                                     | 0.000                              |
| <b>Total</b>   | <b>13.600</b>                          | <b>13.466</b>                             | <b>2.883</b>                       |

- 4.5 The table indicates a very high level of recurrent cost pressures and investments of £13.466m based on current trends and estimates, together with estimated one-off cost pressures and impacts of £2.883m (of which £2.083m are Covid-19 related). As can be seen in paragraph 4.20 this reduces the recurrent budget gap by £0.134m alongside other changes to the financial projections. The short-term pressures, if confirmed, would be a significant call on one-off resources likely to require internal borrowing from existing reserves with subsequent repayment.

#### **Investment in Corporate Plan Priorities**

- 4.6 The original planning assumptions included provision of £1m for priority investments to support key Corporate Plan objectives including addressing climate change and moving toward a carbon neutral city by 2030. Proposed investments include a tax base change relating to a proposed increase in support provided by the Council Tax Reduction Scheme which will require £0.331m subject to Policy & Resources and full Council approval in December. Detailed allocation of Corporate Plan and Climate Change priority investment, including capital programme financing, will be provided to February Policy & Resources Committee.

#### **Local Government Finance Settlement and Tax base Forecasts**

- 4.7 As noted above, full details of government funding for councils is not likely to be announced until mid-December. It is not clear whether the settlement will be a multi-year or annual settlement but the likelihood is that it will be for 2022/23 only.
- 4.8 A key area is the continuing support for Adult Social Care. The table below sets out the ongoing funding applicable to Adult Social Care and the potential resources provided by the Spending Review:

| <b>Table 3: Social Care Resources</b> | <b>2020/21</b> | <b>2021/22</b> | <b>2022/23</b> |
|---------------------------------------|----------------|----------------|----------------|
| ASC Precepting *                      | 2%<br>£2.894m  | 3%<br>£4.400m  | 1%<br>£1.580m  |

|                                       |         |         |         |
|---------------------------------------|---------|---------|---------|
| Improved BCF                          | £9.181m | £9.181m | £9.181m |
| Adults & Children's Social Care grant | £2.100m | £2.100m | £2.100m |
| Adult Social Care Grant               | £4.715m | £4.715m | £4.715m |
| New Social Care Grant (SR2020)        | -       | £0.944m | £0.944m |

\* *Subject to full Council approval for 2022/23*

### **Council Tax**

- 4.9 The council tax increase for 2022/23 is currently assumed at 1.99% and the Spending Review confirmed this is expected to be the maximum increase without triggering a local referendum. This excludes the allowable Adult Social Care precept of 1% which, if approved, would mean an overall increase of 2.99%.
- 4.10 The main impacts of the pandemic on council tax income emanated from a marked increase in the number of Council Tax Reduction (CTR) claimants (16%), delays in housing development completions, and reduced council tax collection, particularly for older debts. For 2022/23 the assumption is that collection rates should return to normal levels at 99% and there has been an increase in the number of property developments progressing and completing. The number of CTR claimants peaked in June 2021 and has been steadily reducing since then and this trend is expected to continue into 2022/23. The number of student exemptions has also declined. Overall the tax base is projected to increase by 2.08% for 2022/23 which reverses the reduction of -1.36% in 2021/22. The final taxbase estimates will be presented to this committee in January 2022.

### **Business Rates estimate for 2022/23**

- 4.11 The spending review included an announcement that there will be a freeze on the business rates multiplier in 2022/23. The council will be compensated for the loss in extra revenue for this announcement which will be based on the September 2021 Retail Price Index increase of 4.9%. This means the council will receive £2.812m additional compensation grant above the level assumed in July.
- 4.12 The Spending Review also included provision for a range of additional targeted rate reliefs in 2022/23 with the most significant being a 50% reduction for the Hospitality, Retail and Leisure sector (subject to a cap for larger businesses). The loss of income to the council will be fully compensated by government.
- 4.13 The projections in July for 2022/23 included a 1% growth in the tax base and this assumption remains. The combination of new business developments and lower than anticipated empty property reliefs (for business failures) is expected to provide a net growth of 1%.
- 4.14 Further work is being undertaken to review the provision for successful business rates appeals as more detailed data has been provided from the valuation office (VOA). An estimate of £0.500m is currently included in the savings proposals but ultimately will need to be reflected in the taxbase report to this committee in January 2022.
- 4.15 The Spending Review also announced that business rates revaluations will move to a 3 year cycle rather than 5 years from 2023. This is intended to make the valuations more accurate and in turn reduce the number of business rates appeals. The Secretary of State for Levelling Up, Housing & Communities announced that the government would no longer be progressing the policy of increasing the local share of business rates to 75%.

### **Budget Gap (Shortfall) 2022/23**



- 4.16 The Moderate View planning scenario in July highlighted a potential budget shortfall of £12.930m in 2022/23 based on known and estimated cost pressures and predicted Spending Review resources. However, this was predicated on the achievement of cost management measures across demand-led budgets of £5.100m, meaning that the overall resource shortfall to address was £18.030m. These were the planning assumptions that officers were asked to work with pending the outcome of the Spending Review 2021 (SR21).
- 4.17 The early announcement of the Health & Social Care Levy and announcements of substantial government funding for social care reforms over a 3-year period caused further uncertainty over the outcome of the Spending Review for local government and suggested that it may be more favourable than assumed in July. Against this backdrop of uncertainty, officers developed potential savings and cost management measures but this process has become increasingly challenging after over a decade of delivering large savings and efficiency packages of over £170 million. The authority is now in a position of potentially having to make considerably more difficult choices including reduction or cessation of non-statutory services but a more certain resource position was clearly required before detailed exploration of more complex and severe measures could be embarked upon.
- 4.18 At this stage in the process, potential first draft savings of £8.540m have been identified and are included at Appendix 1. Any staffing impacts in these first draft proposals have been notified to the Trade Unions and the full set of savings shared with the cross-party Member Budget Review Groups. However, as detailed below, the Spending Review has not provided significant additional resources compared to those assumed in July while significant additional cost pressures have arisen since July which mean that there is now further work to do to identify measures to close the budget shortfall in 2022/23.
- 4.19 The budget gap projection for 2022/23 has now been revised to take into account the following:
- i) The outcome of the Spending Review 2021 which has provided an additional £0.874m compared to the resources assumed in July;
  - ii) Latest estimates of the resources expected to be provided by the Council Tax and Business Rates tax bases next year and beyond;
  - iii) Updated cost and inflationary pressure estimates for all services including demand-led services where latest demographic trends have been used as shown in Table 2 above;
  - iv) An analysis of cost pressures that are expected to be of a temporary nature including those related to the impact of the pandemic as shown in Table 2 above;
  - v) Significantly, increased estimates for pay costs of £4.065m including:
    - Upward revision of the provision for the Local Government NJC pay award offer from 1.50% to 1.75% in 2021/22 and 1.50% to 2.00% in 2022/23 in the light of increasing inflation (£0.951m);
    - Additional provision in respect of the council's decision to set its minimum pay band to Scale 3. This subsumes the increase in the Real Living Wage of 4.2% (combined cost is £0.392m);

- Other pay and grading costs emanating from grading appeals or re-evaluation of roles following service changes (£0.250m);
- Provision for the cost of resolving the recent industrial dispute including equal pay compliance costs (£1.808m);
- Provision for an increase to the Social Worker market supplement due to an increase in current market rates across the region (£0.664m).

4.20 The table below summarises the overall impact of the above changes starting with the predicted budget gap as at July followed by positive or negative changes compared with the 'moderate view' planning assumptions made in July. First draft savings proposals are also included to arrive at a remaining budget gap.

| <b>Table 4: Budget Gap Latest 2022/23</b>   | <b>£m</b>     |
|---|---------------|
| 2022/23 Budget Gap as at July 2021  | 18.030        |
| Increase in estimated net resources from SR2021 assuming 1% ASC precept                               | (0.874)       |
| Increased income from the latest estimated Council Tax base   | (0.191)       |
| Increased income through Business Rates retention inflation compensation                              | (2.618)       |
| Net reduction in recurrent service pressures  | (0.134)       |
| Increased pay offer for 2021/22 from 1.50% to 1.75%   | 0.321         |
| Increased provision for 2022/23 Pay Award from 1.50% to 2.00%   | 0.630         |
| Increased Market Supplement for Social Workers  | 0.664         |
| Provision for increasing the Council's minimum pay band (incorporating the Real Living Wage increase) | 0.392         |
| Provision for the cost of implementing the industrial dispute resolution                              | 1.808         |
| Other minor adjustments to assumptions  | (0.023)       |
| <b>Budget Gap before Savings Proposals</b>  | <b>18.005</b> |
| First Draft Saving Proposals to date (Appendix 1)   | (8.540)       |
| <b>Remaining Budget Gap</b>   | <b>9.465</b>  |

4.21 The table above indicates that a remaining budget gap of £9.465m will need to be addressed, assuming the allowable 1% Adult Social Care Precept is taken up by full Council. However, the final budget gap will need to be further updated but cannot be fully determined until:

- The provisional Local Government Financial Settlement is received and analysed (expected mid-December);
- The Council Tax, Council Tax Reduction and Business Rate tax bases have been fully revisited in late December/early January;
- The Investments & Service Pressures above have been further reviewed and confirmed and the statutory review of the robustness of estimates has been undertaken by the S151 Chief Finance Officer.

#### **Medium Term Financial Strategy Update 2022/23 to 2025/26**

4.22 The table below summarises the MTFs estimates and predicted budget gaps for the next 4 years based on the following key assumptions:

- 1.99% annual Council Tax increases;

- 1.00% Adult Social Care precepts for 2022/23, 2023/24 and 2024/25;
- Annual Tax base growth of 0.75% for Council Tax and 1.00% for Business Rates;
- 2.00% assumed inflation rate for Business Rate uplifts;
- 3-year estimated SR21 funding as per announcement;
- 2.00% pay award from 2022/23 onwards;
- 3.00% income budget uplifts from 2023/24 onwards;
- 2.00% increases to Social Care third party payments
- 0.75% to 1.00% cash limited increases to non-pay budgets;
- Continuation of Troubled Families (now Supporting Families) funding;
- Continued investment to meet demographic growth across demand-led services;
- Continued investment in Corporate Plan priorities in 2022/23 and 2023/24;
- Repayment of reserves used for Covid-19 one-off costs over a 10 year period (subject to availability of reserves).

**Table 5: Projected Medium Term Financial Strategy**

| <b>Summary MTFs and Budget Gaps</b>   | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|---|----------------|----------------|----------------|----------------|
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| Commitments (from previous decisions)                                       | 5.876          | 1.116          | 0.863          | 0.118          |
| Provision for grant reduction/ending  | 8.023          |                |                |                |
| Net Inflation (on Pay, Prices, Income, Pensions)                            | 5.283          | 4.314          | 4.846          | 4.974          |
| <b>Subtotal</b>   | <b>19.182</b>  | <b>5.430</b>   | <b>5.709</b>   | <b>5,092</b>   |
| Demographic, Service and Other Cost Pressures (recurrent and one off covid) | 14.549         | 6.000          | 5.000          | 4.250          |
| Corporate Plan Priorities & Climate Change Investment                       | 1.000          | 1.000          |                |                |
| New grant funding assumed   | (6.280)        |                |                |                |
| Projected Net Tax Base changes  | (8.866)        | (6.440)        | (6.658)        | (6.372)        |
| Assumed 1% ASC precept  | (1.580)        | (1.650)        | (1.711)        |                |
| <b>Predicted Budget Gaps</b>  | <b>18.005</b>  | <b>4.340</b>   | <b>2.340</b>   | <b>2.970</b>   |
| Savings   | (8.540)        |                |                |                |
| <b>Remaining Budget Gaps</b>  | <b>9.465</b>   | <b>4.340</b>   | <b>2.340</b>   | <b>2.970</b>   |

## **5 BALANCING THE BUDGET 2022/23 to 2025/26**

### ***Overview of the Financial Position***

- 5.1 The council's financial position is clearly very challenging with the resources from the Spending Review being insufficient to address the inflationary, demographic and demand-led cost pressures experienced by the council this year and projected next year and beyond. While the council has seen large annual savings packages in years gone by, occasionally in excess of £20m, after over a decade of savings packages totalling over £170m, principally to manage government grant reductions and growing adult and children's social care demands, the ability to generate additional savings becomes increasingly challenging and potentially involves more difficult choices. Opportunities for process or technological efficiencies, management and administrative savings, reductions in

office accommodation, increases in fees, charges, rents and fines, procurement economies and reductions in non-statutory, discretionary services have been and continue to be taken. While there are undoubtedly further opportunities to explore, their magnitude and scope is, in some areas, decreasing over time.

- 5.2 The scale of the financial challenge in 2022/23 suggests that more complex and potentially contentious proposals are likely to need to come forward for consideration by Policy & Resources Committee for recommendation to Budget Council. While alternatives can be explored and indeed put forward to Budget Council by any political group, ultimately, rejection of all such proposals may leave the authority in an unbalanced budget position with potentially serious consequences as outlined in paragraph 3.5 above and as experienced by a growing number of authorities experiencing financial difficulties.

### ***Budget Process and Addressing the Budget Gap***

- 5.3 The budget process this year has been hampered by a range of factors including many services still responding to the pandemic or its impacts, severe recruitment and capacity issues across key services, the industrial dispute, and, perhaps most significantly, the uncertainty over resources from the Spending Review and the lateness of the announcement. The timetable is therefore under pressure but a number of first draft budget proposals, totalling £8.540m, have been worked up and have been tested sufficiently to be put forward for information at Appendix 1.
- 5.4 Following the announcement of the Spending Review and an assessment of its financial consequences for BHCC, the projected budget gap for 2022/23 needed to be reassessed. As noted earlier, this also required updated estimates of demographic and inflationary cost pressures based on latest trends and data, a review of tax base resources, and an assessment of the costs of the industrial dispute resolution and other changes to pay cost assumptions. The overall effect is that the budget gap has only slightly changed from £18.030m to £18.005m before savings. However, this includes £4.065m unplanned, additional pay costs since July.
- 5.5 Assuming that all first draft savings proposals of £8.540m were to be accepted, this still leaves a remaining budget gap of £9.465m in 2022/23. Officers therefore began working on additional 'stretch' proposals in early November and these will be worked-up in detail for the Budget Report in February and will be shared confidentially with all groups and Trades Unions (where there are staffing impacts) as soon as they are available during December and January.
- 5.6 In the light of increasing inflation, all discretionary fees & charges have also been put under immediate review alongside those where opportunities for increasing income were already under consideration. Not increasing all discretionary fees & charges in line with current inflation means that income would fall in real terms and would contribute a lower proportion toward the cost of services. Fees & charges proposals are normally taken to service committees for approval and therefore service committees will need to be fully aware of the budget position and the need to ensure income maintains pace with inflation as a minimum.
- 5.7 The key question in considering development of the 2022/23 General Fund budget concerns whether or not additional savings of £9.465m can be identified and accepted by Budget Council for delivery in 2022/23. This would not only be likely to involve very difficult choices but is likely to carry very high delivery risks. For this reason, the budget process will strengthen its focus on a medium term strategic approach aiming to balance the budget over a 4-year Medium Term

Financial Strategy period. Medium term strategies to balance the budget could include:

- i) Continued use of the Modernisation Fund and other Spend-to-Save investments that either enable or generate revenue savings or avoid future cost growth (i.e. reduce the projected Demographic, Service or Other Cost Pressure in Table 5 above);
  - ii) Property and asset management strategies including further reductions in office accommodation and/or operational buildings, saving running costs and/or generating rentals;
  - iii) Income generation strategies including fees & charges increases and/or new discretionary fees & charges;
  - iv) Continuing to drive procurement savings through increased use of spend data and analysis, tighter control over specifications, and improving performance monitoring of contracts;
  - v) Targeted service redesigns to eliminate duplication, improve areas with inefficient integration points, prioritise areas for technological and digital efficiencies, consider further partnership working, including with the Community & Voluntary Sector, and prioritising high value-added functions and preventive services. This may mean divesting from some non-statutory services;
  - vi) A review of the level of forecast risk that the authority is prepared and able to manage, particularly in relation to demand-led budgets. A prudential approach is necessary and estimates must be robust but overstating cost and service pressures may mean that services are unnecessarily cut or reduced to balance the budget. The S151 CFO will therefore work with services to develop a more detailed risk strategy, which may mean that forecasts can be revisited and/or assumptions regarding future cost management or cost avoidance savings can be increased to reduce the funding requirement.
  - vii) Making more systematic use of and giving full consideration to benchmarking information to aid understanding and decision making by focusing attention on areas where the authority is experiencing relatively high costs and/or poorer outcomes compared to contextual comparators (i.e. authorities with similar socio-economic characteristics). There are more details on this below;
  - viii) Some or all of the above could be supported by external and independent support and advice from sector experts, for example the LGA, Cipfa or ADASS, to help the authority identify where its costs and performance do not compare well and where there may be opportunities to improve costs and/or outcomes over the medium term.
- 5.8 The above and other strategies will be used to develop 'stretch' budget savings proposals over the 4-year period, always in the context of the Council's Corporate Plan and the priorities therein.
- 5.9 With regard to benchmarking the cost of services with comparator authorities, this can provide a useful steer but it is recognised that this is a blunt methodology that can be fraught with difficulties, particularly if the authorities used for comparison do not closely align to this authority's socio-economic, deprivation and other characteristics (e.g. quality of housing, prevalence of substance

misuse, level of crime, etc). The Chartered Institute of Finance & Accountancy (Cipfa) has developed a set of 'nearest neighbours' for each authority to compare with that attempts to identify those with similar characteristics. However, while these comparators may be useful at a whole authority level, they may not always provide the most appropriate contextual comparators at the individual service level. For illustration only, the following shows a selection of the major services provided by the council and how they compare to the current Cipfa nearest neighbour group of authorities.

| Latest benchmarking data                               | Spend (£) per capita of relevant population |                          |
|--|---|--------------------------|
|  | BHCC  | CIPFA Nearest Neighbours |
| Adult Learning Disability (per 18+)                    | 157   | 139                      |
| Adult Social Care excluding Adult LD (per 18+)         | 261   | 286                      |
| Children and Young People Services (per 0-17 year-old) | 1,102                                       | 936                      |
| Concessionary Fares and Supported buses                | 42  | 19                       |
| Cultural & Sports Services                             | 57  | 47                       |
| Environmental and Regulatory Services                  | 81  | 76                       |
| Highways and Transport Services                        | 32  | 38                       |
| Housing General Fund Services                          | 85  | 39                       |
| Planning & Development Services                        | 11  | 18                       |
| Parking (net income)                                   | -86   | -22                      |

*Note, the Cipfa nearest group currently includes Bristol, Coventry, Leeds, Liverpool, Medway, Newcastle upon Tyne, Nottingham, Plymouth, Portsmouth, Reading, Salford, Sheffield, Southampton, Southend-on-Sea and York.*

- 5.10 As noted, this cannot be regarded as definitive information as to whether or not BHCC is high (or low) cost or offers good value for money. For example, work has been undertaken in Children's Services to identify those characteristics that cause family breakdown and increased incidence of child protection, such as drug and alcohol issues and domestic violence, and this has generated a more appropriate set of contextual neighbours that suggests BHCC costs are much closer to the average for these more relevant authorities for this particular service area. However, being aware of the authority's costs and exploring differences is a good discipline and demonstrates an awareness of and focus on value for money.
- 5.11 Benchmarking information will therefore be used to pinpoint where further exploration and understanding of cost differentials could be beneficial and may assist the authority in making decisions concerning the level of spending on services. This is particularly relevant in the context of adult and children's social care spending increasing as a proportion of the council's overall budget from 56% in 2012/13 to around 68% in 2022/23. Due to the statutory nature of these services and much reduced government funding over the last decade, the need to fund these services effectively squeezes out spending on other local services and therefore being clear that spending on all services is proportionate and offers

good value for money compared to best practice and similar authorities is important.

- 5.12 As before, services will also set out draft Budget Strategies which will indicate the overall direction of travel for the delivery of services in each directorate and set out each directorate’s approach to supporting Corporate Plan priorities.
- 5.13 Draft Budget Strategies also set out the service and financial context within which each directorate is operating, including any key demographic, demand or cost pressures affecting statutory or priority areas and requiring additional investment. They will also indicate where there is a plan or opportunity for capital investment to meet Corporate Plan priorities, e.g. new build housing, and give an indication of ‘Areas of Focus for Savings’ which are likely to form part of the finalised budget proposals coming forward to February Policy & Resources Committee and Budget Council. Draft Budget Strategies are included at Appendix 1 along with first draft savings proposals.
- 5.14 It should be noted that consultation processes in relation to any budget proposals will be in accordance with the timetable set out in Section 7 but, for the avoidance of doubt, nothing can fetter the necessary statutory or agreed consultation processes required to ensure that there is meaningful consultation with residents, staff or other stakeholders potentially affected by budget proposals.

## **Reserves Position and One-off Funding**

### ***Current Reserve Levels and Usage***

- 5.15 The level of reserves and balances held by an authority is becoming increasingly important in assessing their financial health and sustainability. The City Council maintains a recommended working balance of £9m and has other earmarked reserves of around £30m which can be borrowed from temporarily. However, together with the financial smoothing in 2021/22 referred to earlier, the council has already approved the use of reserves to support other initiatives on a temporary basis pending repayment. While these reserves will therefore be returned, it does mean that the level of cash-backed reserves available is suppressed until these are fully repaid. The reserves currently ‘loaned’ and the relevant payback periods are as follows:

**Table 6: Current Calls on Reserves**

| <b>Reserve</b>  | <b>Amount Deployed<br/>£m</b> | <b>Repayment Period</b> | <b>Repayments Start</b> |
|---|-------------------------------|-------------------------|-------------------------|
| Financial Smoothing of the 2021/22 General Fund Budget          | 1.471                         | 10 years                | 2022/23                 |
| Term Time Only (TTO) back pay settlement for schools            | 3.300                         | 10 years                | 2021/22                 |
| Surface Water Action Management Plan                            | 0.385                         | 10 years                | 2020/21                 |
| Waste PFI   | 0.170                         | 4 years                 | 2021/22                 |
| Royal Pavilion & Museums Trust Cash Facility (£4m max facility) | 1.000                         | Up to 10 years          | 2021/22                 |
| Brighton Youth Centre   | 0.325                         | 6 years                 | Est 2022/23             |
| Other Contingent Liabilities                                    | 3.000                         | 10 years                | 2022/23                 |
| <b>Total Borrowed</b>   | <b>9.651</b>                  |                         |                         |

**Latest Position in 2021/22**

- 5.16 The forecast outturn position in the current year is important because it affects the availability of one-off resources. A projected underspend adds to the one-off resources available while a projected overspend will need to be funded from one-off resources or carried forward to the next financial year, adding to the financial challenge.
- 5.17 In-year financial performance is monitored through the council's Targeted Budget Management (TBM) framework and the TBM Month 7 (October) report elsewhere on the agenda shows a projected year-end overspend of £3.396m on the General Fund. The overall overspend has reduced by £0.763m since Month 5 and includes the estimated cost of the increased 2021/22 pay award offer, increasing the council's minimum pay grade, and the cost of resolving the recent industrial dispute.
- 5.18 The council's share of the net deficit on the Council Tax and Business Rates collection funds, after allowing for Section 31 deficit smoothing grant, is forecast to be £0.941m and must also be funded from one-off resources in the 2022/23 budget.
- 5.19 Table 7 identifies potential resources and liabilities that will need to be taken into account in setting the 2022/23 budget. At this stage, this assumes that spending in 2021/22 will be in line with the TBM Month 7 (October) report projections included elsewhere on this agenda.
- 5.20 The table shows an estimated shortfall in resources of £4.337m based on the current TBM (month 7/October) and collection fund positions. The potential one-off requirements identified in the table mean the shortfall in resources increases to £5.427m assuming one off covid costs are covered through financial smoothing. This position is expected to change and will be updated for the February budget report. The main factors expected to affect the position are:
- The latest TBM position which will be updated for month 9 (December). Any improvement to the current overspend forecast will increase available one-off resources and vice versa;
  - A comprehensive review of reserves and provisions which is undertaken annually as part of the budget process;
  - A further review of in-year Collection Fund (tax yield) performance. Any improvement will reduce the shortfall and vice versa;
  - Updated estimates of short term cost pressures including Covid related costs.

| <b>Table 7: One-off resources, liabilities and potential allocations<br/>(as at Month 7/October)</b> | <b>£m</b> | <b>£m</b>     |
|--|-----------|---------------|
| Unallocated general reserves   |           | <b>0.000</b>  |
| Revenue Budget position 2021/22 (TBM):   |           |               |
| - Forecast outturn overspend (as at TBM Month 7/October)   |           | <b>-3.396</b> |
|  |           |               |



|   |        |               |
|---|--------|---------------|
| Collection Fund <sup>1</sup> position 2021/22:  |        |               |
| - Estimated 2021/22 Council Tax collection fund net deficit including 3 year smoothing              | -2.147 |               |
| - Estimated 2021/22 Business Rates Retention collection fund net surplus including 3 year smoothing | 0.668  |               |
| - Contribution from Section 31 grant towards 3 year smoothing                                       | 0.538  |               |
| <b>Sub-total: Projected Collection Funds position</b>   |        | <b>-0.941</b> |
| <b>Shortfall before allocations</b>   |        | <b>-4.337</b> |
| <b>Potential One-off Allocations in 2022/23:</b>  |        |               |
| - Latest Short Term Covid-19 service pressures  | -2.083 |               |
| - Diseased Trees removal  | -0.600 |               |
| - Planning – Public enquiries   | -0.050 |               |
| - Planning – Guidance for liveable cities   | -0.150 |               |
| <b>Total short term service pressures</b>   |        | <b>-2.803</b> |
| - Allocation to Council Tax Reduction Discretionary Fund  | -0.190 |               |
| - Allocation to Welfare Reform Support Fund   | -0.180 |               |
| <b>Total one off commitments</b>  |        | <b>0.370</b>  |
| <b>Current One-off Resources Shortfall</b>  |        | <b>-7.510</b> |
| Financial smoothing of one off Covid-19 service pressures   |        | <b>2.083</b>  |
| <b>Net One-Off Resource Shortfall</b>   |        | <b>-5.427</b> |

5.21 The table above clearly indicates a very substantial call on one-off resources. As indicated above, there are a number of factors likely to cause a change to these figures while further work is also needed to fully understand Covid-19 and one-off pressures and consider options for mitigating some of these costs.

### **Capital Investment Programme and Capital Strategy 2022/23**

#### ***Capital Investment Programme***

5.22 The detailed capital investment programme will be brought to the February Policy & Resources Committee as normal. The capital programme will update existing capital schemes for any change in phasing and/or cost estimates. The programme will cover existing and new scheme proposals including:

- Housing Schemes including HRA schemes and the Housing Joint Venture;
- Education & Skills investments including provision for school places;
- Sustainable Transport including Local Transport Plan investments;
- Major Regeneration schemes including the Strategic Investment Fund (SIF), Brighton Waterfront, Madeira Terraces, Valley Gardens and New England House;
- Other Investment Funds including the Asset Management Fund, Planned Maintenance and IT&D Fund;

<sup>1</sup> Collection Funds are separate accounts where taxation revenues received from the Council Tax and Business Rates are allocated and compared to the expected tax yield for the year.

- Carbon reduction and sustainability investment programmes including Solar Panels and the Sustainable Carbon Reduction Initiative Fund (SCRIF);
  - Major IT & Digital implementation and replacement programmes.
- 5.23 Other investment options and capital financing routes are currently being explored and will come forward to February Policy & Resources Committee subject to the affordability of financing options, viable outline business cases, or available capital resources including capital receipts.
- 5.24 Capital receipts from the sale of surplus land and buildings support the capital programme and the projections are regularly reviewed. The council will continue with its strategy of re-balancing the property portfolio by disposing of low or non-performing commercial properties and reinvesting in more viable property investments. This ensures costs can be minimised and rental growth optimised to ensure best value is achieved. However, this is now considerably more challenging as borrowing from the PWLB is now prohibited for commercial property investment. Capital receipts are generally under severe pressure due to competing demands and there are significant calls on receipts to support the following objectives:
- Funding of annual investment funds such as the SIF and AMF referred to above;
  - Rebalancing of the commercial property portfolio;
  - Additional capital investment towards achievement of carbon neutral 2030;
  - Support for accelerating housing supply schemes; and
  - Funding of the Modernisation Fund which supports implementation of savings and improvement programmes (see below).

#### ***Modernisation Programme Funding***

- 5.25 Over the previous 5 years and in the current year, the council has utilised the government's capital receipt flexibilities to provide it with an invest-to-save resource that can be used to fund temporary revenue costs provided these underpin service improvements and/or generate future revenue savings. Given the very large savings programmes evident over the last decade or more, the council has used this facility to provide a Modernisation Fund to enable delivery of annual savings programmes and support other improvements and modernisation that have longer term benefits. The Modernisation Fund is resourced by generating capital receipts from the sale of surplus assets in accordance with the council's Asset Management Strategy.
- 5.26 In 2020/21 the council approved a further 4-year Modernisation Fund but at a lower level of £15.5m to enable savings and improvements over the period 2020/21 to 2023/24. The quantum of funding over the period may need to be reviewed subject to the level of support needed to deliver the savings proposals emanating from the 2022/23 budget setting process.
- 5.27 Subject to this review, the Modernisation Fund is currently expected to be deployed as follows:
- **Invest-to-Save Budget Proposals:** Based on the experience of the previous 4 years, £2.000m is estimated to be required to support implementation of specific savings and efficiency programmes including service redesigns, recommissioning and process improvements. Investment requirements are currently being reviewed and finalised and will be refreshed each year but

are currently significantly over-subscribed. This resource will be held in a reserve and only released through review of business cases by the officer Corporate Modernisation Delivery Board. Committee approvals are also sought where required by Financial Regulations and the council's constitution.

- **Customer Digital:** £2.600m is anticipated to be required over the next 2 years to support ongoing investment in digital infrastructure and applications and to support ongoing development of the council's digital services and integration of data across systems and services to improve the accessibility, efficiency and ease-of-use of on-line services. The investment is set at a lower level than in previous years as the underpinning work to develop the necessary technology platforms has been completed.
- **Modernisation Enablers:** A further £1.870m is estimated to be required to support ongoing change and modernisation programmes over the period. This includes everything from an effective project management support team, business improvement analysts, workstyles property team support, investment in 'Our People Promise' and staff development and skills programmes, together with additional specialist support where required.
- **Managing staffing changes:** efficiency programmes and a continual drive for improved value for money will often result in changes in the level or mix of staffing and skills required across the council. Changing staffing levels or skills will often need financial consideration in order to effect voluntary severance for roles or posts no longer required or needing to be replaced with different roles or skills. Estimated resources of £0.800m are required to meet severance costs to manage change over the remaining 2-year period.
- **IT Modernisation Investment:** This related to back-log investment in IT equipment, software, security, systems and services (e.g. voice and data) to enable the organisation to remain secure, resilient and efficient. This was in response to historic under-investment which has had to be addressed over the last 4 years including network and infrastructure upgrades. No further investment is required from the Modernisation Fund from 2022/23 as step increases in the IT&D budget have now been built into the Medium Term Financial Strategy to ensure the infrastructure can be properly funded and maintained in future.

5.28 The Modernisation Fund is kept under review as budget plans develop and spend-to-save opportunities and investment requirements emerge in more detail over the planning period. The indicative profile of Modernisation Fund requirements over the remaining 2 years of the current fund is shown in the table below.

| Programme Area                | 2020/21 | 2021/22 | 2022/23 | 2023/24 | Total        |
|-------------------------------|---------|---------|---------|---------|--------------|
|                               | £m      | £m      | £m      | £m      | £m           |
| Invest to Save (4-Year Plans) | 0.650   | 0.550   | 0.450   | 0.350   | <b>2.000</b> |
| Customer Digital              | 1.750   | 1.750   | 1.550   | 1.050   | <b>6.100</b> |
| Modernisation enablers        | 1.510   | 0.920   | 0.930   | 0.940   | <b>4.300</b> |

|                             |              |              |              |              |               |
|-----------------------------|--------------|--------------|--------------|--------------|---------------|
| Managing staffing changes   | 0.700        | 0.500        | 0.400        | 0.400        | 2.000         |
| IT Modernisation Investment | 0.800        | 0.300        | 0.000        | 0.000        | 1.100         |
| <b>Total</b>                | <b>5.410</b> | <b>4.020</b> | <b>3.330</b> | <b>2.740</b> | <b>15.500</b> |

### **Capital Strategy 2022/23**

- 5.29 The Prudential Framework requires local authorities to produce a Capital Strategy which is to be presented and approved by members each year. The purpose of the Capital Strategy is to provide a single place for transparency and accountability of local authority non-financial investments and its capital investment programme, including any investments in commercial property or loans to third parties.
- 5.30 The aim of the Capital Strategy is to ensure members are fully conversant with the risks of non-financial investments and are aware of how the risks are proportional to the council's core service activities. The document will include:
- The proposed Capital Investment Programme
  - Potential and pending non-financial investments
  - An overview of the council's Risk Exposure
- 5.31 The Modernisation Fund above will be incorporated into the full Capital Strategy alongside new and perennial capital investments that will support major regeneration projects, improved transport infrastructure, provision for school places, and major housing improvements and new build programmes. Key decisions are likely to be required in respect of strategic funds including IT & Digital investment, Strategic Investment Funds (supporting regeneration) and Asset Management Funds. The Capital Strategy will form part of the General Fund budget report to ensure that the link between capital and revenue decisions is maintained and to ensure that budget resourcing decisions are taken in the context of the full range of proposed revenue and capital budgets, resources, investments and savings.
- 5.32 As previously, a 5-year capital programme has been developed and will be linked to the Medium Term Financial Strategy. The Capital Strategy, including the detailed Capital Investment Programme, will be presented to Policy & Resources Committee and Budget Council in February prioritising the resources available and incorporating the information identified above.

### **Staffing Implications (General Fund Services)**

- 5.33 At this stage in the budget process it is not possible to determine how many posts and staff may ultimately be affected by forthcoming proposals to address the remaining budget gap in 2022/23. An estimate of posts and staff affected, including any staff potentially at risk of redundancy, will be made for the February Policy & Resources report and will be shared with trades unions in early January. As in previous years, actual numbers will be dependent on the detailed options proposed and on the results of formal consultation where required. As previously experienced, it is likely that a significant number of these posts are already being held vacant and some will become vacant through normal turnover, thereby minimising the risk of redundancies.
- 5.34 At this stage, the first draft budget proposals indicate that 11.6 FTE posts could be deleted from the council's staffing establishment and that this could put 3.5 FTE posts at risk of redundancy.

- 5.35 If the first draft proposals and later proposals do potentially place any staff at risk of redundancy the council's approach is to support staff by:
- Providing appropriate support to staff throughout the change process to enable them to maximise any alternative opportunities available;
  - Controlling recruitment and ensuring there is a clear business case for any recruitment activity;
  - Managing redeployment at a corporate level and maximising the opportunities for movement across the organisation;
  - Managing the use of temporary or agency resources via regular reports to Directorate Management Teams (DMT's);
  - Offering voluntary severance where appropriate and financially viable to staff affected by budget proposals on a case-by-case basis.

These measures will remain in place as consultation with trade unions, staff and other stakeholders is undertaken. Where necessary, a targeted voluntary approach to releasing staff in areas undergoing change will be managed to support service redesigns whilst ensuring that the organisation retains the skills that will be needed for the future.

## 6 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 6.1 The budget process allows all parties to engage in the examination of budget proposals and to put forward viable alternative budget and council tax proposals to Budget Council on 24 February 2022. Budget Council has the opportunity to debate the proposals put forward by this Committee at the same time as any viable alternative proposals.
- 6.2 Any alternative proposal will need prior assessment by the Section 151 Chief Finance Officer and Chief Executive will not normally be allowed where an estimate is not considered to be robust for one of the following reasons:
- i) The risk of not achieving the saving is assessed to be high;
  - ii) There is insufficient evidence or information to assess the potential saving;
  - iii) The alternative proposal is adding to or bringing forward an existing saving without further information as to how this can be achieved;
  - iv) The alternative proposal requires one-off investment or loan financing that cannot be supported;
  - v) The alternative proposal is beyond the powers and duties of the local authority.

## 7 COMMUNITY ENGAGEMENT & CONSULTATION

### Budget Timetable

- 7.1 The Timetable for draft and final budget proposals is given in the table below. This timetable does not include detailed plans for ongoing consultation with stakeholders as this will be determined in conjunction with those involved.

**Table 9: Budget Timetable**

| Date       | Event                              | Notes   |
|------------|------------------------------------|---|
| 2 Dec 2021 | Policy & Resources Committee (P&R) | Draft Budget & Resource Update report including Budget Strategies;<br>Budget Monitoring (TBM) month 7 report.<br>Review of the Council Tax Reduction Scheme for |

|                  |   |   |
|------------------|---|---|
|                  |   | 2022/23   |
| 16 Dec 2021      | Council   | Approval of the Council Tax Reduction Scheme for 2022/23  |
| Dec to early-Jan | Development of 'stretch' budget proposals         | Further work and refinement of draft budget proposals incorporating the impact of the Provisional Local Government Financial Settlement |
| Mid-Dec          | Provisional Local Government Financial Settlement | Receipt and analysis of the provisional settlement expected around mid-December.  |
| Jan 2022         | CFO/HR/Unions                                     | Further sharing of 'stretch' budget proposals   |
| Jan 2022         | Department Consultative Group's                   | Sharing and explaining 'stretch' Budget Proposals for the relevant directorate if required.   |
| w/c 11 Jan 2022  | Member Budget Review Group                        | January P&R finance reports (see below) shared with cross-party Finance Leads.  |
| 27 Jan 2022      | P&R   | Council Tax Base report;<br>Business Rates tax base report.   |
| By 31 Jan 2022   | CFO/HR/Unions                                     | Sharing overall final budget package  |
| 10 Feb 2022      | P&R   | General Fund and HRA Revenue & Capital Budget reports;<br>TBM month 9 report.   |
| 24 Feb 2022      | Budget Council                                    | General Fund and HRA Revenue & Capital Budget reports.  |

7.2 General information and advice about the council's budget will continue to be provided through the council's web site which provides information and graphics on how money is spent on services, where the money comes from and a summary of the financial challenges ahead.

7.3 The council will also widely publicise its online social media inviting residents and stakeholders to give us their views and ideas on Twitter via #BHBudget. Social media continues to be an effective, low cost, mechanism for engaging with residents and other stakeholders. Key proposals from the budget plan will be publicised, along with information about council services, and questions and comments invited from residents immediately following their publication over the period leading to the February Policy & Resources Committee meeting.

**Other consultation and engagement processes are as follows:**

7.4 Information will be shared with Strategic Partners and community groups as normal. Local Strategic Partners remain acutely aware of the potential cumulative impact of funding pressures across public sector agencies on the city. The City Management Board, attended by all Local Strategic Partnership representatives, will therefore ensure that information is shared across the sector to assess and mitigate adverse cumulative impacts wherever possible and develop joint actions where appropriate. Engagement with statutory partners will continue on an ongoing basis to further share and understand the potential cumulative impact of budget proposals across the city as they take shape.

- 7.5 In particular, the council will be engaging fully with the Brighton & Hove Clinical Commissioning Group (CCG) with the intention of aligning the budget processes of the two organisations as far as practicably possible. As with the council, the local CCG is likely to remain under severe financial pressure due to continually increasing demands and the backlogs caused by the pandemic.
- 7.6 There are ongoing briefings and discussions with the Economic Partnership that cover potential funding sources and bids, city regeneration, economic growth, employment and apprenticeship strategies. Statutory consultation with Business Ratepayers will also be undertaken as normal.
- 7.7 For staff, updates will be provided via the council's intranet and formal consultation with Staff and Unions will be undertaken as normal including Departmental Consultative Group (DCG) meetings during December and January followed by appropriate consultation with directly affected staff.
- 7.8 Similarly, where appropriate or required by statute, specific consultation will be undertaken with residents, businesses and other people directly affected by proposed changes to service delivery.
- 7.9 Many different stakeholders are interested in proposals for fees and charges which are often linked with budget proposals. Please refer to the relevant service committee where proposals are normally considered and approved. The list of meetings is set out in the table below.

| <b>Fees &amp; Charges Area</b>                  | <b>Meeting</b>                                       | <b>Date</b> |
|---|--|-------------|
| Children & Young People                         | Children, Young People & Skills Committee            | 10/01/22    |
| Planning  | Tourism, Equalities, Communities & Culture Committee | 13/01/22    |
| Libraries                                       | Tourism, Equalities, Communities & Culture Committee | 13/01/22    |
| Seafront, Outdoor Events and Venues             | Tourism, Equalities, Communities & Culture Committee | 13/01/22    |
| Environmental Health and Trading Standards      | Environment, Transport & Sustainability Committee    | 18/01/22    |
| City Parks and City Clean                       | Environment, Transport & Sustainability Committee    | 18/01/22    |
| Parking and Highways                            | Environment, Transport & Sustainability Committee    | 18/01/22    |
| Bereavement Services                            | Environment, Transport & Sustainability Committee    | 18/01/22    |
| Private Sector Housing – HMO Licensing          | Housing Committee                                    | 19/01/22    |
| Housing Revenue Account                         | Housing Committee                                    | 19/01/22    |
| Life Events (excluding Bereavement Services)    | Policy & Resources Committee                         | 10/02/22    |
| Licensing and Enforcement                       | Licensing Committee                                  | 17/02/22    |
| Adult Social Care Non-residential care services | Health & Wellbeing Board                             | 08/03/22    |

## 8 CONCLUSION

- 8.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out the latest budget assumptions, process and timetable to meet the statutory duty. The Spending Review 2021 announced resources for a 3-year period including an increase in core spending for local government of 1.8% (excluding new social care costs/funding) in 2022/23, which includes a potential 1% annual Adult Social Care precept. This is not sufficient to address this council's predicted cost pressures resulting in the need to identify substantial cost reductions and savings. The report advises that this will need to be achieved over a 4-year Medium Term Financial Strategy (MTFS) period.

## 9 FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

- 9.1 These are contained within the main body of the report.

*Finance Officer Consulted: James Hengeveld*

*Date: 22/11/21*

### Legal Implications:

- 9.2 Policy & Resources Committee has delegated power to formulate the council's revenue budget proposals and Capital Strategy and to recommend their adoption by full Council as part of the overall budget setting process.

- 9.3 Any decisions taken as part of the budget setting process are subject to compliance with relevant legal requirements before implementation. The early draft budget plans and savings proposals contained in this report are for noting and are subject to change, and do not commit the council to implement any specific savings proposals. When specific decisions on budget reductions are necessary, focussed consultations and the full equality implications of doing one thing rather than another will need to be considered in appropriate detail.

*Lawyer Consulted: Elizabeth Culbert*

*Date: 22/11/21*

### Equalities Implications:

- 9.4 In Brighton & Hove City Council a budget Equality Impact Assessment (EIA) process has been used to identify the potential disproportionate impacts of proposals on groups/individuals covered by legislation (the 'protected characteristics' in the Equality Act 2010) and actions to mitigate these negative impacts or promote positive impacts. This is a key part of meeting the requirements of the Act and demonstrating that we are doing so.
- 9.5 In law, the potential impacts identified, and how far proposed actions mitigate them, must be given due regard by decision-makers when making budget and resource decisions. However, as noted under legal implications above, in setting the budget members are making resourcing decisions which remain subject to compliance with all necessary legal and statutory consultation requirements.
- 9.6 All proposals with a potential equalities impact in 2022/23 will have an EIA completed and provided to all Members no later than the February Policy & Resources Committee. As normal, these will be cross-referenced with savings proposals. Staffing EIAs will also be completed alongside the formal consultation process on proposed staffing changes and feedback will be provided in the February report.



- 9.7 Feedback will be used by officers to revise the first drafts of EIAs into final versions which will be available to members to scrutinise as they consider the budget proposals at Budget Policy & Resources and Budget Council. They will also be published on the council website.

Sustainability Implications:

- 9.8 One of the key principles for developing budget proposals, aligned with the Corporate Plan, is whether or not proposals and investments can contribute to the 10-year carbon reduction target to become carbon neutral by 2030. This plays out through everything from reviewing the council's Administrative Building occupancy and facilitating more remote working for staff, to increasing the number of electric vehicles in its fleet, through to working with the Climate Assembly to identify further opportunities and actions and developing the Carbon Neutral Programme. The capital and revenue budget proposals for 2022/23 cannot address all of the Corporate Plan objectives immediately but will provide for many initiatives to be supported and researched to inform future budget rounds.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

- 9.9 The national and local picture continues to indicate growing risks in respect of the pressures on the health & social care system, the growing problem of homelessness, pressures on children's social care, and the ongoing impact of welfare reforms, particularly the benefit cap and roll-out of Universal Credit. There is also potential for further ongoing impacts from the pandemic depending on the robustness of economic recovery. This indicates that potential risks remain high and that good quality data and analysis will be required to ensure that trends and the impact of interventions can be closely monitored and understood.
- 9.10 The level of financial risk provisions, including the working balance and reserves, will need to be reviewed for 2022/23 in the light of the Month 9 budget monitoring position (TBM), the outcome of the Local Government Financial Settlement, the delivery risks inherent in savings proposals, the projected ongoing impact of the pandemic, and available resources. The level of any risk provisions will clearly need to strike a balance between putting scarce resources to one side when there are growing pressures on service delivery.
- 9.11 The budget report to February Policy & Resources Committee will include the Chief Finance Officer's formal assessment of the robustness of estimates in the budget proposals and the adequacy of reserves and provisions, including an assessment of the need for any additional risk provisions.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Draft Directorate Budget Strategies and First Draft Budget Proposals 2022/23
2. Draft Equality Impact Assessments for Draft Budget proposals

### **Documents in Members' Rooms**

1. None

## **Background Documents**

1. None