

# Brighton & Hove City Council

## Strategy, Finance & City Regeneration Committee

## Agenda Item 26

**Subject:** General Fund Budget Planning & Resources Update 2024/25

**Date of meeting:** 13 July 2023

**Report of:** Chief Finance Officer

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### FOR GENERAL RELEASE

#### 1 PURPOSE OF REPORT AND POLICY CONTEXT:

- 1.1 This report provides a budget planning and resource update in preparation for the start of the 2024/25 annual budget setting and medium term planning process. The previous three years have been highly unusual, including two years affected by the pandemic followed by a year of exceptionally high inflation driven by global events. While the pandemic years were generally supported by significant government funding, the exceptional inflationary pressures experienced last year were supported by an increase in Spending Power of just 3% compared to CPI that topped out at 11.1% in October 2022, with no further government funding support forthcoming during the year.
- 1.2 The funding settlement for 2023/24 was improved by the government's decision to revert Social Care Reform funding to core funding and to delay the reforms, which provided an 8.9% increase in Spending Power. However, this did not address the funding shortfall in 2022/23 and has therefore put many councils in financial difficulty with widespread overspending evident, resulting in unplanned calls on reserves to manage the 2022/23 position. This will have also left the majority of authorities with an underlying pressure being carried into 2023/24.
- 1.3 This is supported by findings from the annual survey of the Association of Directors of Adult Social Services (ADASS) which found that 72% of authorities used reserves to balance their 2022/23 budget – almost double the 37% who did in 2021/22. This is a significant indicator and a clear sign that the additional costs driven by high pay, energy and food inflation severely impacted social care provision, primarily through the increased commissioning costs of in-house, independent and private sector home care and residential care costs.
- 1.4 Following on from over a decade of government grant reductions, the financial challenges posed by the pandemic, and now a high inflationary environment, it is not surprising that local government, nationally, is in an unprecedented financial situation. The financial sustainability of many authorities is being called into question, including this authority where the external auditor has highlighted financial sustainability as a significant weakness in their Annual Report 2021-22, particularly given the authority's relatively low level of allocated and unallocated reserves and balances.

- 1.5 There is now a potentially serious situation developing whereby a range of financial impacts are all combining to negatively impact on financial sustainability with very few elements moving in a favourable direction. These include:
- Continuing high inflation leading to higher nationally negotiated pay awards, high contractual and commissioning costs, particularly for PFI's and Social Care Providers, and high operational costs, e.g. energy and transport;
  - An associated cost of living crisis driven by inflation and high interest rates which directly impacts on private sector rental costs leading to higher rates of homelessness and higher costs of leasing Temporary Accommodation together with increased service demands across adult and children's social care and an increased cost of Council Tax Reduction due to increasing claimant numbers;
  - A challenging economic environment that is very clearly impacting on visitor spending power and other economic activity, resulting in suppressed cultural service, parking, planning and many other incomes as well as pressures on commercial rental incomes;
  - Severe challenges in maintaining Council Tax and Business Rate collection performance due to the increasing number of people in financial difficulty and an increase in business insolvencies;
  - A post-pandemic downturn across all labour markets resulting in high recruitment and retention costs, most notably across Drivers, Children's Social Care and Legal Services but generally across almost all professional groups;
  - Increased costs of capital investment, particularly due to high construction inflation, resulting in higher Minimum Revenue Provision (MRP) costs and an increased cost of borrowing;
  - Increasing financial pressures across schools which has resulted in the General Fund needing to make provision for deficits for schools transferring to Academies, including Moulescoomb and Homewood College. However, there are now substantial deficits growing across many schools that could ultimately impact General Fund resources if not managed or resolved.
- 1.6 Although the government announced a high level, two-year spending review last year, this does not provide local authorities with reliable information on which to set budgets. Once again, the planning process for 2024/25 will therefore require key judgements about likely levels of government funding support, which are not normally confirmed until autumn/winter. However, other factors are also difficult to assess, particularly over the medium term planning period (4 years), and therefore judgements will need to be made, for example, regarding how long higher inflation and the cost of living crisis will persist, and the time period for full economic and visitor recovery over which the council itself may have some influence through its regeneration, sustainable transport and other relevant policies.
- 1.7 Developing estimates in a highly uncertain environment and without government funding certainty is clearly an unenviable position and carries with it very high risks for developing a balanced, robust and sustainable budget. Being too optimistic may impact on financial sustainability in the short to medium-term if the situation turns out to be significantly worse, and, conversely, being too pessimistic could result in unnecessary or damaging cuts to essential services being considered.
- 1.8 As in previous years, officers have therefore developed estimates based on current data, analysis of trends for demand-led services and consideration of government (OBR) economic data and forecasts. A balanced view is taken and

evidence shows that in the last few years, and last year in particular, that estimates have not been over-prudent given that costs and demands have outstripped estimates and assumptions due to a worsening economic situation. To derive the potential budget shortfall (gap), estimates of costs (inflationary and demographic), government funding, fees & charges incomes, and taxation revenues are drawn up and are provided below.

- 1.9 Although the council's only unallocated reserve is its Working Balance, it can manage a level of financial risk by either borrowing from its earmarked reserves or by utilising its Working Balance in the short term with replenishment over a period of time. However, the council's reserves and balances are well below the average for unitary and upper tier local authorities and it has already borrowed £5.7 million from its reserves to manage the impact of the pandemic to date, which could take up to 10 years to repay. The Provisional Outturn report for 2022/23 showed that the council will need to use £3.376 million from its Working Balance to address the overspend incurred with plans to replenish this over 3 years. This will require £1.125 million resources to be identified for the next 3 years, adding to future budget gaps and the financial pressure.
- 1.10 Entering into a new term of Administration and in light of the External Auditor's recommendations regarding improving financial sustainability, there is an opportunity to build towards a longer term view and develop proposals to address not only the next financial year, as legally required, but to aim for financial sustainability over the Medium Term 4-year planning period. This will be important for a number of reasons including:
- Demonstrating that the council is setting its annual budgets in the context of understanding its longer term financial sustainability;
  - Demonstrating that any use of reserves or balances in the short-term to support the budget is financially sustainable (i.e. repayable) in the medium term;
  - Ensuring that delivery of the Council's Corporate Plan priorities and associated service planning is aligned with medium-term financial planning and sustainability, and;
  - Ensuring that any budget shortfalls (gaps) in future years are identified early to enable longer term programmes of change to be identified and instigated as soon as possible in order to generate necessary savings, efficiencies or income.
- 1.11 The medium term planning process will consider both the service and financial strategies required to maintain financial sustainability over the period while ensuring that core statutory services can be funded and aiming to support the council's corporate priorities as far as possible.

## **2 RECOMMENDATIONS:**

The Strategy, Finance & City Regeneration Committee is recommended to:

- 2.1 Note the potential funding and net expenditure projections for 2024/25.
- 2.2 Note the Medium Term financial projections for 2024/25 to 2027/28 and the predicted budget gaps over the period.
- 2.3 Note the proposed budget development approach and that officers will use this to develop 4-year medium-term service and financial plans and proposals for Budget

Council consideration, including specific budget proposals to manage the identified budget shortfall in 2024/25.

### 3 MEDIUM TERM SERVICE & FINANCIAL PLANNING

#### Local Financial Planning Context

3.1 As noted earlier, local authorities continue to have to set service and financial plans without any firm information about future funding and an increasing number of potential uncertainties. For example, the current financial planning regime is becoming highly problematic for local authorities for the following reasons:

- i) **Single-year financial settlements:** Central government announced a high level, two-year Autumn Statement in 2022 but followed this up with a short-term, one-year Local Government Financial Settlement for 2023/24 (the fifth in a row) with no certainty over funding for 2024/25 and beyond.
- ii) **New bidding processes:** Significantly, there are also an increasing number of funding streams, both capital and revenue, that are now subject to national bidding processes, giving even less certainty over funding. Most notably for this council, funding for homelessness and rough sleeping, arts and cultural services, and sustainable transport are subject to numerous bidding rounds and significant funding also comes through the NHS but is subject to annual negotiations. In addition, these processes often transfer all risk of cost over-runs to the local authority which, in a high inflationary environment, becomes a significant risk factor.
- iii) **Short-term funding:** Many of the council's funding streams are now temporary or time-limited including important funding such as the Household Support Fund, some Homelessness funding, New Homes Bonus, and NHS hospital discharge and mental health funding;
- iv) **Financial reforms:** Social Care funding reforms were put on hold due to concerns raised by the LGA and others about the potential cost of the reforms. Other potential financial reforms, including the Fair Funding Review and Business Rates changes, also appear unlikely to be revisited before the next General Election. In lieu of these reforms, the government has transferred some Revenue Support Grant (RSG) to a new temporary 'Services Grant' which is adjusted by government each year for varying reasons. For example, in 2023/24 it was top-sliced to provide a minimum settlement increase of 3% for all authorities (which was not applicable to BHCC) and to fund the CPI increase in Revenue Support Grant (RSG) thereby resulting in no net gain to the council.

All of this contributes to financial uncertainty and makes financial planning very challenging and perilous at a time when local authority budgets are under unprecedented pressure.

3.2 Ideally, the budget setting process should therefore allow some flexibility to manage any adverse fluctuations in the level of estimated costs, resources or funding. This necessarily requires a prudent approach in order to:

- (i) avoid exhausting the authority's reserves and balances (one-off resources);
- (ii) manage risks effectively and maintain financial resilience and sustainability over the medium term.

However, setting aside risk reserves or planning to increase contributions to reserves is very challenging when faced with substantial annual budget gaps.

- 3.3 At this early stage of the budget setting process, this report includes an indicative assessment of the financial pressures facing priority services in terms of increases in costs, and demographic growth in demands, particularly in relation to ‘demand-led’ services for vulnerable adults, families and children such as social care and homelessness. Alongside government grant reductions, limitations on the allowable level of council tax increases, and inflationary pressures, these demand-led cost pressures have been the main driver of the substantial ‘budget gaps’ that the council has been experiencing over the last decade or so. The impact of high inflation, even if it begins to fall this year, will further exacerbate pressures in 2024/25, and possibly beyond, depending on the effectiveness of monetary policy and global economic factors.
- 3.4 Not planning on a prudential basis could result in the council being unable to set a balanced budget, even after taking into account reserves and balances, many of which are not available to utilise. As seen in recent times, losing grip of a council’s finances has serious reputational implications and in cases where this has happened, the level of external scrutiny, challenge and/or government intervention will normally increase, including:
- Notification to and involvement of the Department of Levelling Up, Housing & Communities (DLUHC) where potential financial difficulties have reached a critical point and a council is unable to balance its budget. This can result in a statutory Section 114 report being issued by the Chief Finance Officer (CFO). Such a report is made to full Council and provides 21 days for the Council to respond with measures to balance the budget.
  - Public Interest reports being issued by External Auditors where they believe the authority is not acting or is failing to act appropriately regarding financial matters.
  - Appointment of independent financial reviewers, usually where a local authority has identified the need to request a ‘capitalisation direction’ from government whereby it either needs to sell capital assets and use capital receipts, or utilise borrowing to fund revenue expenditure in the short term to keep afloat.
  - In severe cases, appointment of Commissioners to run the council or parts of the council on behalf of the Secretary of State, for example, Thurrock Council and Liverpool City Council.
  - In the severest case, Northamptonshire, direct intervention by government resulted in the dissolution of the authority and creation of two new unitary authorities from April 2021.
- 3.5 In their annual reviews, external auditors are therefore increasingly concerned with local authorities’ arrangements for securing value for money which includes demonstrating financial resilience and sustainability and providing evidence of effective medium term planning. The external auditor’s Annual Report 2021-22 for this authority identified financial sustainability as a ‘significant weakness’ and made a Key Recommendation to the council to take steps to improve its financial sustainability and resilience (Audit & Standards Committee, Item 38, 24 January 2023).

### **Reserves & Balances**

- 3.6 The council’s available reserves and balances are an important indicator of the council’s financial resilience and ability to manage unexpected financial impacts. Available reserves and balances are cash-backed and are held for a wide range of

commitments in the short to long term. This excludes balances held by the Housing Revenue Account and Schools which are not available to the General Fund. It also excludes capital reserves which cannot normally be used for revenue purposes. Levels are currently as follows:

- **Working Balance** £6m – this is a permanent risk reserve and therefore any use must be accompanied by a plan for replenishment. Approximately £3m was drawn down to manage the 2022/23 outturn overspend which will need to be repaid over 3 years to restore the Working Balance to the recommended level of £9m which represents approximately 4% of the net General Fund budget. Holding working balances of between 4% and 5% is considered to be good practice for local authorities;
- **Earmarked Reserves** £31m – earmarked reserves are held in lieu of an approved scheme or expense or an identified liability and will often span more than one financial year. Many are held against contractual commitments (e.g. PFI contracts) while others are held for regeneration projects and are linked to match funding from the Local Enterprise Partnership or other government funds. Many will be utilised in the short term, including revenue ‘carry forward’ items, but longer-term earmarked reserves can be ‘internally borrowed’ from provided they are replenished in time for when they are required to meet their intended purpose. Using reserves to defer decisions or to balance the revenue budget is not sustainable and therefore should be an exceptional practice only, particularly as reserves are generally reducing year-on-year and the authority has not been in a position to improve its reserve position for many years.

3.7 A full list of the council’s reserves and balances as at 31 March 2023 is provided at Appendix 9 of the Targeted Budget Management (TBM) Provisional Outturn report to the 22 June meeting of the Strategy, Finance & City Regeneration Committee.

### **Budget Planning Estimates**

3.8 Previous budget rounds have looked at worst, midpoint and best case estimates for both cost increases (inflation), demographic changes (demand) and funding (government grant and taxation). However, this is a theoretical approach and is perhaps better considered in terms of identifying the potential range of sensitivities for key areas of the budget. For example, what would be the impact of a Local Government pay award that is 1% higher than assumed in the estimates and vice versa. These sensitivities are set out in Appendix 3 which considers various potential risks and how these would normally need to be treated or mitigated.

3.9 The early estimates for 2024/25 set out in this report therefore focus on the best estimates and assumptions available at this time based on current demand and cost trends or other available information such as government Office of Budget Responsibility (OBR) inflation assumptions, known contractual uplifts, and latest national pay award information. Estimates and assumptions are developed on the basis that all services make every effort to manage demands and secure value for money as far as practicably possible within their delegated authority to both support the council in meeting its Best Value duty and to avoid over-prudent estimates during a time of increasing financial challenges.

### **Addressing Budget Shortfalls (Gaps)**

3.10 The difference between the estimated costs of services, net of fees, charges and rents, and the estimated resources available from taxation and government grant funding determines whether or not there will be a predicted budget shortfall/gap each year. In common with many councils, this council has experienced more

significant annual budget gaps since 2010/11 as the demand for services has substantially increased while government grant funding was substantially reduced under government 'deficit reduction' policies. While there has been limited redress in the last few years in terms of increased social care funding and allowable Adult Social Care Council Tax precepts, which increase the burden of funding on local taxpayers, the resulting loss of funding is over £100 million in real terms from 2010/11 to 2023/24.

- 3.11 A budget gap can be closed by identifying cost savings and efficiencies, generating increased income or funding, developing cost avoidance strategies (e.g. preventative or demand management strategies), or by cutting or reducing services provided that statutory minimum requirements can still be met. In summary, the broad options and/or possibilities for closing any projected budget gaps are therefore as follows:
- (i) Government may provide a better Local Government Financial Settlement than currently known or assumed;
  - (ii) The council could elect to increase Council Tax above the current statutory 'excessive council tax increase threshold' (i.e. above 2.99%). For example, with inflation currently at around 8.7%, an inflationary council tax increase at this level would potentially raise an additional £9.9m. However, under current regulations this would require a local referendum to be held with a successful outcome. This of itself creates a cost of approximately £0.400m to hold a referendum and requires identification of one-off resources to mitigate the delay in implementing proposals while the outcome is awaited. In the case of a Council Tax Referendum, it is therefore a legal requirement to have a 'substitute budget' should a referendum not be successful;
  - (iii) Partners could provide increased funding for joint operations e.g. NHS funding toward social care costs. For example, last year NHS Sussex provided significant hospital discharge funding and agreed increased funding for Section 117 Mental Health caseloads, which is again assumed for 2024/25. There may be further opportunities for shared funding or joint investment through the Integrated Care System (ICS) to improve longer term care costs but plans are still at early stages of development. Other partners are small by comparison;
  - (iv) There may be improvements in the projected levels of cost, income and/or demographic pressures as the council progresses through the budget process. Estimates will be revisited from time-to-time but particularly at month 9 (December) ahead of producing the budget proposals for Budget Council in February 2024. A key activity is therefore for services to manage down costs and demands in-year because this not only reduces in-year pressures but addresses underlying pressures that are the principal cause of budget gaps in future years;
  - (v) Development of medium term service and financial plans by major service directorates that include identification of potential savings, efficiencies and cost management measures to either reduce costs in non-priority areas, manage down pressures in demand-led areas (e.g. through prevention, commissioning and intervention strategies), generate greater incomes from fees, charges or property rents, or develop strategies to attract alternative funding. These may be multi-year proposals which may then enable the council to 'financially smooth' out budget gaps over a 4-year medium term period, for example, where savings and cost reductions steadily increase over the period.

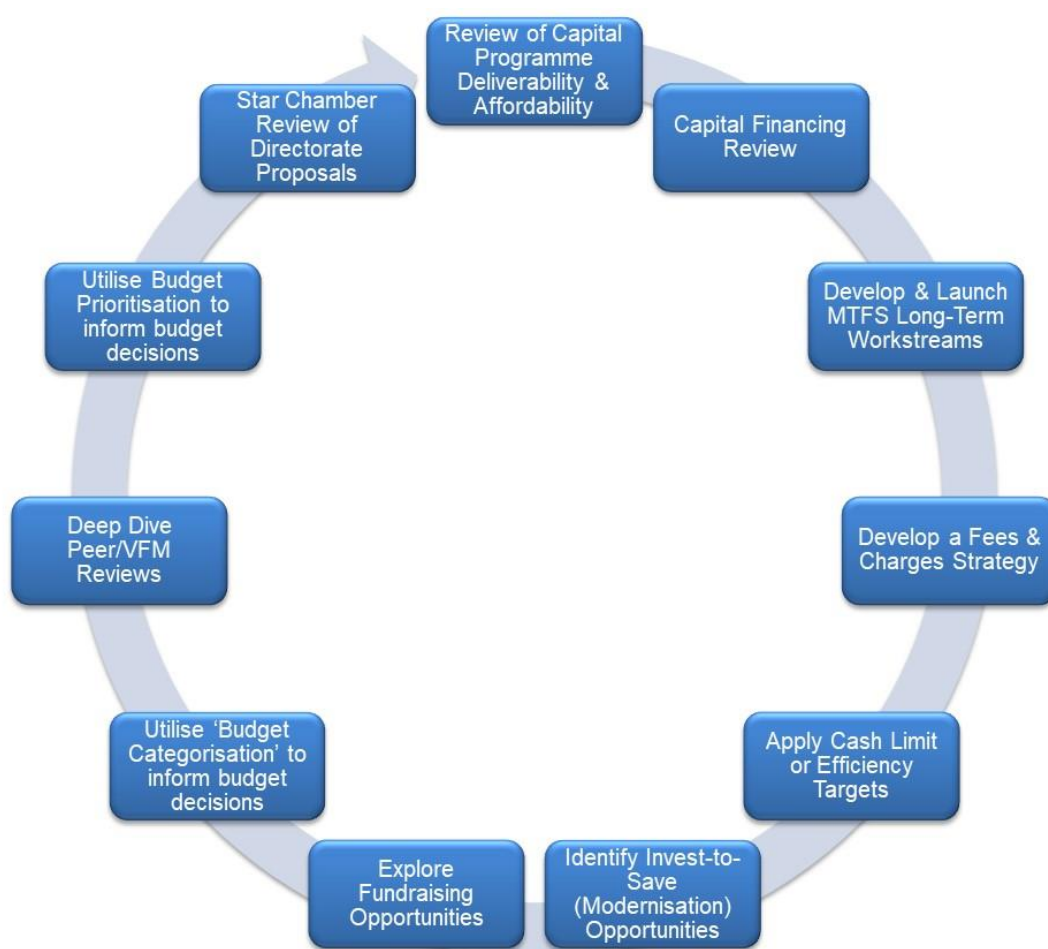
3.12 Options (i) to (iii) above carry a high level of uncertainty or risk and therefore the authority will normally need to focus on in-year cost and demand management to reduce current and forward estimates as described in (iv) above and develop budget strategies and savings proposals as described in (v) above.

#### **4-Year Medium Term Financial Planning**

- 3.13 The financial challenges for this and many authorities, particularly unitaries with their full range of services, are growing in the current economic and inflationary environment. While addressing budget challenges on an annual basis is a statutory requirement in order to set a legally balanced budget and set a Council Tax, best practice and the current financial climate would advocate that longer term planning is also essential to ensure that more fundamental changes to services, or initiatives to generate income or funding, are considered now and programmed over a minimum 4-year planning period. This will help to inform future year estimates and aid the authority in progressing towards greater financial resilience and sustainability. It will also help to inform the capacity and investment needed to achieve change and ongoing sustainability.
- 3.14 Developing plans to cover a longer time frame increases the complexity of the budget process but could support a more focused and deliverable Medium Term Financial Strategy (MTFS) and should enable better alignment of the budget with Corporate Plan priorities over the period. Setting budgets on a 1-year horizon is likely to be less strategic and can lead to so-called 'salami slicing' where incremental cuts or cash limits are applied to services each year that ultimately result in services reaching a tipping point after a number of budget rounds. Unfortunately, five years of single-year Local Government Financial Settlements has not supported a longer term approach.
- 3.15 The graphic below outlines potential elements for an effective budget planning approach for the forthcoming budget round covering the period 2024/25 to 2027/28. A key aspect of the suggested approach is to improve the alignment of capital and revenue budget planning to ensure that both support statutory requirements and Corporate Plan priorities as far as possible. Each of the elements is discussed below.



## Components of a Medium Term Budget Setting Process



- **Review of Capital Programme Deliverability & Affordability**

The council's capital programme in recent years has become very large and fragmented, exceeding £200m per annum. There has also been a record of very substantial slippage and reprofiling (delays), indicating that capital investment plans are not realistic or deliverable within the originally profiled timeframes due to recruitment, contracting and capacity issues across all sectors. This was commented on by the External Auditor in their Annual Report 2021-22, leading to a recommendation to the council to review and evaluate how it sets its capital programme. The 2024/25 budget process is therefore an opportunity to address these concerns, fully review the programme and its affordability in the context of revenue budget pressures, and its alignment with council priorities. A full and detailed review of existing schemes and future requirements will therefore be undertaken to inform the Capital Strategy for 2024/25 and beyond.

- **Capital Financing Review**

Linked to the Capital Programme review above, the associated Capital Financing budget will also be reviewed. The current capital investment plans will see very substantial capital financing costs start to flow from 2024/25 in the form of Minimum Revenue Provision for schemes supported by borrowing. Therefore, curtailment or deferral of schemes would not only reduce capital financing costs but would increase cash balances and therefore revenue

investment income. This is likely to be a key area where substantial savings could be made without impacting directly on front line service delivery.

- **Develop and Launch MTFs Workstreams**

There are many potential options that can be explored to improve longer term financial sustainability. Everything from investing in prevention to reduce longer term care costs to developing new income sources. However, these can take significant capacity and investment to bring to fruition and therefore need to be properly assessed and evaluated before embarking on a whole host of initiatives with questionable returns on investment.

- **Develop a Fees & Charges Strategy**

Many fees & charges are regulated and in general fees & charges are set to recover costs and overheads of the service provided. However, in some areas the council has more discretion. There are still many areas where the council does not charge but could legally do so. A key concern with fees & charges is the equality impact and impacts on those with low incomes. This can be managed by designing the fee or charge to accommodate such impacts, for example, introducing means tests. Many councils have become increasingly reliant on fees & charges to protect service provision due to the limitations on Council Tax increases and reduced government grant funding. Approximately one third of the council's General Fund council services are now funded by fees & charges.

- **Apply Cash Limit or Efficiency Targets**

Continually improving efficiency is good business practice for any organisation. This can be achieved through continually reviewing and improving processes (i.e. service redesign), using IT and digital technologies to automate workflows and services, and effective procurement and commissioning strategies to utilise the council's purchasing power to shape local provision or secure more competitive terms. To recognise this, some expenditure categories, e.g. supplies and services, can be cash limited (i.e. provided with a lower or no inflationary budget uplift or even reduced) or services can be targeted with generic efficiency targets (e.g. 1% or 2% reductions) to ensure that all areas of the council strive for improved value for money. These opportunities will be a key area to explore in the forthcoming budget process.

- **Identify Invest-to-Save (Modernisation) Opportunities**

Modernisation funding is discussed later in the report but is now becoming problematic. The Modernisation Fund was previously supported by the government's 'capital receipt flexibilities' enabling capital receipts to be used to fund revenue expenditure *provided* such expenditure supported improved value for money and future revenue savings. However, not only do these flexibilities end in 2025 but, more importantly, the demand on capital receipts across a range of objectives is such that they are no longer significant enough to support the necessary investment. Future invest-to-save or modernisation activities will therefore need to either:

- Demonstrate a clear return on investment over a reasonable time period (max 5 years) which can then be supported by internally borrowing from reserves with subsequent repayment (subject to availability of reserves);
- Alternatively, investment requirements can be netted off against savings proposals meaning that the saving in the first year or two is reduced and then increases to its full extent in later years;

- If any element of the invest-to-save proposal is of a capital nature, borrowing could be considered, provided that a return on investment can be evidenced in the business case.
- **Explore Fundraising Opportunities**  
The council has been successful over many years in bidding for additional revenue and capital funding including Heritage Lottery funds, Arts Council Funds, Homelessness and Rough Sleeping (RSI) funding, Levelling Up funding, Family Hub funding, Department for Transport funding (e.g. the substantial Bus Partnership bid), Coast to Capital Local Enterprise Partnership growth funding, and so on. However, there may be other opportunities available to the council to attract funding or even to explore changing the funder of some services. This may require some 'pump priming' resources to research and explore options.
- **Utilise 'Budget Categorisation' to inform budget decisions**  
Officers have undertaken a Budget Categorisation exercise to define the different types of services and budgets across the council and the role that they play. For example, many services are required to meet statutory duties and responsibilities such as Adult Social Care, while others are not statutory but provide essential services such as Street Lighting, while other services can generate income that help the authority to mitigate costs and overheads. Six broad categories have been identified as follows:

<b>Budget Category</b>	<b>Approximate % of Spend</b>	<b>Meaning / Example</b>
Statutory	91.3%	Unavoidable statutory duty or service requirement / e.g. Adult and Children's Social Care
Business Critical	12.6%	Non-statutory but without these services the council could not function / e.g. Operational Buildings, IT infrastructure and networking
Income Generating	-13.4%	Services that generate significant incomes which, if withdrawn, would create a budget pressure or loss / e.g. Commercial Property Rents
Business Important	3.0%	Non-statutory but without these services many legal, financial and service risks would increase, the council would be unlikely to function as efficiently or effectively, and/or overall costs are likely to increase / e.g. Support Service functions such as the Procurement Service
Policy Priority	6.0%	These are non-statutory, discretionary services that meet current Corporate Plan policy priorities / e.g. Welfare Support or non-statutory Children's Services
Discretionary	0.4%	Non-statutory, discretionary services that the council has elected to or has historically provided or commissioned / e.g. Early Years Nurseries

This exercise will be updated for 2023/24 budgets and changes in category. The exercise does not of itself inform where savings or cost reductions are possible but it does provide an alternative way to look at where money is spent and may help to inform the budget setting process, particularly where difficult

choices may need to be made to balance the budget. It is clear from the above that even though a service may be designated as statutory, because these services represent over 90% of spend they cannot be exempted from exploring savings and efficiencies. In addition, this exercise does not consider what the statutory minimum level of service should be for statutory services as this is often not defined by statute and cannot be determined.

- **VFM Reviews**

The council has a Best Value duty under the LG Act 1999 requiring it to 'make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.' This is generally referred to as improving Value for Money (VFM). There are many ways to test and assure the value for money of services provided by the council including:

- Comparing the cost and quality of services with similar authorities or service providers;
- Comparing the cost of services per capita of the relevant population groups or service groups e.g. cost of Children's Services per 1,000 children aged 0 to 24 in the local authority area;
- Using external, independent peer challenge to help identify improvements e.g. LGA peer reviews;
- Utilising best practice research to compare services provided by the authority;
- Engaging expert consultancy to help identify and design specific services or interventions to help improve VFM;
- Comparing the cost and quality of in-house provision versus contracted or outsourced provision (so-called 'make or buy' reviews).

- **Utilise Budget Prioritisation to inform budget decisions**

The council provides a very wide range of services but not all have the same level of priority and may, for example, offer a greater or lesser contribution to meeting corporate priorities and statutory duties. It is therefore possible to develop a set of criteria against which to assess both services and any potential saving proposals, including service cuts or reductions. Any number of criteria could be developed and can be weighted according to relative importance. This cannot be a precise exercise and will clearly involve a level of subjectivity but, similar to budget categorisation above, it can provide an alternative way of looking at the relative importance of all the services the council provides, of which there are hundreds, and may be useful to inform, or at least affirm, budget decisions.

- **Star Chamber Review of Directorate Proposals**

Star Chambers are common practice across business and local authorities and are effectively a form of internal peer review. They can involve both officers and members as desired. The intention is to utilise a Star Chamber process later in the budget process when proposals are reaching a more developed state to test each directorate's hypotheses and rationale for proposed savings, investments or cuts and, in particular, understand and test delivery risks, assess the capacity required to achieve change, understand impacts on equalities, city partners or corporate priorities, review any potential legal or financial risks, and, in particular, consider any impacts on other council

services. This process should also look at associated capital programme requirements and any cross-cutting or corporate proposals.

- 3.16 These processes are in addition to the basic requirement for all services, Directorate Management Teams (DMTs) and the Executive Leadership Team (ELT) to explore all potential options for generating savings within their directorates and on a cross-cutting, council-wide basis.

### 2024/25 Budget Estimates

- 3.17 The table below sets out the projected inflationary cost increases, demographic (demand) pressures and commitments for 2024/25 developed on the basis set out in paragraph 3.9 above.

**Table: Projected Budget Position 2024/25**

<b>Cost and Demographic Pressures</b>	<b>Estimate</b>
	£m
General Inflation assumptions including 2024/25 Pay Award	10.392
Budget Commitments (mainly capital financing)	5.581
Grant reductions (New Homes Bonus/Services Grant)	0.669
Change in contribution to reserves	2.454
2023/24 pay award above 3.75% base provision	3.809
General Fund energy contract inflation	0.500
PFI contract inflation (Waste and Schools PFIs)	1.093
Children's Social Care – provider and other cost increases	2.188
Demographic pressures - Looked after children and Care Leavers	1.457
Adult Social Care (including Learning Disability services) – provider and other cost increases	8.532
Demographic pressures - Adult Social Services including Learning Disabilities	3.740
Temporary Accommodation and Rough Sleepers – cost and demand pressures	2.050
Home to School Transport – cost and demand pressures	0.927
Housing Benefit Subsidy shortfall	0.700
Income and Commercial Rent pressures (due to falling demands)	2.020
All other pressures across council services	2.799
<b>Total Cost and Demographic Pressures</b>	<b>48.911</b>
<b>Funding and Taxation Resources</b>	
Social Care additional funding (announced)	-5.390
Additional government funding (assumption of £0.5 billion extra nationally)	-2.500
Business rates growth and appeals change (+1%)	-0.648
Business rates change (+5.4% based on projected OBR Sept CPI)	-4.348
Revenue Support Grant increase (+5.4% based on OBR Sept CPI)	-0.428
Council Tax estimated tax base growth (+0.9%)	-1.630
Council Tax increase (2.99% assumed)	-5.190
Adult Social Care precept (2% assumed)	-3.471
<b>Total</b>	<b>-23.605</b>
<b>Budget Gap (Savings Requirement) 2024/25</b>	<b>25.306</b>

- 3.18 The estimates and assumptions above, based on the best information available, indicate that a substantial budget gap of £25.306m would need to be addressed in order to balance the budget. However, it must be remembered that all estimates at this very early stage of the process, and in a volatile cost and demand environment, are subject to change and will be reviewed and updated throughout the budget process.
- 3.19 For planning purposes and recognising that it will take many months to develop robust proposals and undertake all of the processes outlined in paragraph 3.15 above, ELT and DMTs will work on the basis of addressing the £25.306m shortfall identified above. This will also include focusing on managing costs and demands in the current year which can contribute to improving trends together with working up savings, cost reduction and demand management proposals for next year and the following 3 years.
- 3.20 Excluding generic cost pressures such as pay awards, energy costs and other commitments, the budget gap almost exactly correlates to cost and demand pressures from services (£25.506m). Therefore, managing these pressures is key to resolving the council's budget challenges.

### **Medium Term Financial Projections 2024/25 to 2027/28**

- 3.21 The table below summarises the medium term estimates and predicted budget gaps for the next 4 years based on the following key assumptions:
- Demographic pressures are based on detailed estimates for 2024/25 and then moderated estimates for 2025/26 onward;
  - 2.99% Council Tax increase in 2024/25 and then reverting to 1.99% thereafter;
  - 2.00% Adult Social Care precept 2024/25, reverting to zero thereafter;
  - (Average) Pay awards of 3% in 2024/25 and then 2.5% thereafter;
  - 3% annual income target/generation uplifts over the period;
  - Average 3.5% social care third party provider payment increases for 2024/25 reducing to 3%, then 2.5% thereafter;
  - Variable 1.00% to 3.50% cash limits on non-pay budgets from 2024/25 onwards;
  - Business Rate uplifts to follow OBR CPI inflation forecasts;
  - Council Tax taxbase growth ranging from 0.9% to 0.75% over the period;

**Table: Indicative Medium Term Financial Projections**

<b>Summary Projections and Budget Gaps</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Commitments (from previous decisions)	7.123	4.026	0.988	0.589
Net Inflation (on Pay, Prices, Income, Pensions)	10.392	9.041	8.142	8.271
Subtotal	17.515	13.050	9.130	8.860
Net Investment in priority/demand-led services	26.006	13.050	11.050	11.050
New grant funding assumed	(2.500)	0.000	0.000	0.000
Projected Net Tax Base changes	(15.715)	(6.342)	(5.832)	(6.002)
<b>Predicted Budget Gaps</b>	<b>25.306</b>	<b>19.775</b>	<b>14.348</b>	<b>13.908</b>

3.22 The medium term projections could be affected by a wide range of factors as follows:

- Higher or lower demands and cost pressures than projected;
- Higher or lower tax base movements;
- Further movements in locally or nationally negotiated pay;
- Higher or lower inflation than assumed;
- More or less favourable government grant settlements;
- Potential changes to the 'excessive council tax' capping rules and/or precepting or other more fundamental changes to local government funding;
- Changes in interest rates (impacting on financing budgets); and
- Actuarial changes to employers' LG pension contributions.

Many of these can have significant impacts on medium term projections in either direction. However, it is important to attempt to estimate future costs and resources as this gives early indications of potential future financial challenges and can inform decision-making now, particularly with regard to setting in train longer term programmes to address financial sustainability.

3.23 Based on the analysis above, options to address budget gaps totalling £73.337m over the medium term period 2024/25 to 2027/28 will need to be developed.

#### **One-off Resource Requirements 2024/25**

3.24 One-off resources may be needed in 2024/25 for a wide range of reasons which could present additional financial challenges as these would require identification of resources to meet any commitments. One-off resources may be required to cover the following:

- Any Collection Fund deficits \*\*;
- Any General Fund outturn overspend (i.e. TBM overspend) \*\*;
- Any increase to provisions or reserves required \*\*;
- Any delay or deferral to implementation of 2024/25 savings (to manage so-called 'part-year effects' until the full-year saving is achievable);
- Any unavoidable one-off expenditure or commitments;
- Any one-off allocations for priorities (subject to availability of resources).

*\*\* The reverse is also true whereby surpluses or underspends could increase the availability of one-off resources or, at least, reduce the call on one-off resources.*

3.25 At this stage there is likely to be a one-off resource requirement to continue diseased tree management costing at least £0.500m and there are also potential implementation and capital costs that could arise from the Environment Act 2021 in relation to food and other waste collection changes. The latter changes are also likely to have significant ongoing revenue implications, including capital financing. It is unclear when or if these requirements will be placed on local authorities but the presumption at this stage is that the doctrine of 'New Burdens' will apply and that any additional funding requirements will be met by government within the Local Government Financial Settlement.

## **4 CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME**

### **General Fund**

#### **5 Year Capital Investment Programme**

- 4.1 The current Capital Strategy was approved by Budget Council in February 2023 along with scheme-by-scheme capital programme estimates that were incorporated into the council's Budget Book. The aim of the Capital Strategy is to ensure that all members can understand and determine the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite of the council. The capital expenditure estimates incorporate planned rolling investment programmes alongside major infrastructure, housing and sustainability schemes.

#### **Rolling programmes**

- 4.2 The majority of the council's capital investment is within rolling programmes. The key programmes are as follows:
- Carbon Neutral investment programme.
  - Investment in new build housing through the Housing Revenue Account and Housing Joint Venture (with Hyde Housing);
  - Investment in maintaining and improving the Council Housing Stock through the Housing Revenue Account;
  - The Education Capital programme provides investment from central government which includes New Pupil Places, Education Capital Maintenance and Devolved Formula Capital for schools;
  - Disabled Facilities Grants;
  - The Local Transport Plan (LTP) covering a wide range of transport-related schemes;
  - The Information Technology & Digital Investment Fund to maintain and upgrade the council's infrastructure and IT architecture;
  - The Asset Management Fund (AMF) to maintain operational buildings, improve sustainability and reduce long term maintenance costs;
  - Corporate Planned Maintenance (PMB) to undertake planned building works and upgrades;
  - The Strategic Investment Fund (SIF) to provide project support for major regeneration programmes that draw in substantial private sector investment;
  - Vehicle and plant annual replacement programme.
- 4.3 The current strategy identifies longer term capital investment plans as well as a funding strategy and the potential outcomes for each investment plan. This strategy includes major investment requirements such as investment in Kingsway to the Sea, partnership investment through major projects such as Valley Gardens, New Homes for Neighbourhoods, the Home Purchase scheme, the Housing Joint Venture, Heritage Lottery Fund bids such as the Royal Pavilion Estates Regeneration, and plans for investment into the seafront infrastructure at Madeira Terrace.
- 4.4 Government funding through the City Deal has been received to support the development of Longley Industrial Estate including the refurbishment and expansion of New England House. Local Growth Fund (LGF) grants have been approved from the Coast to Capital Local Enterprise Partnership (C2CLEP) to



support the Black Rock Enabling project, Valley Gardens Phase 3 and the Brighton Research Innovation Fibre Ring projects. The Kingsway to the Sea project has received significant funding through the Government's Levelling Up Fund. Longer term investment for coast protection is also incorporated into the 5-year strategy which includes government match-funding from the Environment Agency.

- 4.5 Capital receipts from the sale of surplus land and buildings support the capital programme and the projections are regularly reviewed having considered the social value implications of any decision to dispose first. The council's existing strategy is to re-balance 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 Public Works Loan Board is now prohibited for commercial property investment and so the current focus is on investment in existing assets.
- 4.6 Capital receipts are under severe pressure due to competing demands for the resources and the certainty and speed with which capital receipts can be realised. This puts in jeopardy the council's ability to support the following objectives:
- Funding of annual investment funds such as the Strategic Investment Fund (SIF) and Asset Management Fund (AMF) referred to above;
  - Re-balancing of the commercial property portfolio;
  - Support for accelerating housing supply schemes; and
  - Funding of the Modernisation Fund which supports implementation of savings and improvement programmes (see below).

#### **Review of the Existing Capital Programme and Future Requirements**

- 4.7 The Capital programme, agreed at Budget Council in February 2023 included £211.7m investment plans for 2023/24. This included a large number of schemes reprofiled from 2022/23 and in some cases previous years. Since the programme was set, a further £25m of reprofiling and slippage in 2022/23 was approved by this committee in June 2023.
- 4.8 There are many reasons why slippage and reprofiling occurs but there is a close link to the organisational capacity available to support the wide range of capital projects now in place. Other reasons include cost estimates that are no longer deliverable or viable due to inflationary pressures, the availability of suppliers/contractors in the marketplace, and the authorisation process through committees.
- 4.9 In recent years there has been a significant increase in the number of schemes funded through borrowing. At the time decisions were made borrowing rates were very low, however, the recent rapid increase in the Bank of England Base Rate means that borrowing costs are at their highest in 15 years. Therefore, continuing with delayed schemes puts increased pressure on the council's financing costs budget. In addition, the diminishing availability of capital receipts over the last 3 years has resulted in borrowing being more frequently used as an alternative source of financing. Delivery of the capital programme also has a direct impact on the council's cashflow forecasting; the greater the certainty of cashflow, the greater the opportunities for better investment returns on cash held.

4.10 As noted in paragraph 3.15 above, a key part of the budget process and in-year budget management will be a review of the capital programme and its affordability and deliverability. This should include recommendations for rationalising and prioritising schemes to ensure approved projects are deliverable and affordable and to ensure that capital investment is aligned to Corporate Plan priorities and supports the council's medium term financial sustainability.

### **Modernisation & Enabling Investment**

4.11 In February 2020, Budget Council approved a Modernisation Fund of £15.0m over the 4 years 2020/21 to 2023/24 to provide continued investment in the council's IT and Customer Digital infrastructure and developments, as well as providing support for the delivery of savings and improvement programmes through either invest-to-save schemes or through the provision of enabling programmes such as 'Workstyles', the People Promise staff development and support programme, and project and programme management support. The fund was increased to £15.5m by Budget Council in February 2021.

4.12 The Modernisation fund has been resourced through the flexible use of capital receipts. This is where the government allows councils to fund revenue expenditure from capital receipts provided the expenditure supports improved value for money and/or the future realisation of revenue savings. This flexibility expires in March 2025. Irrespective of the expiry, the council has a shortfall of capital receipts at present to fund this programme and therefore, for the continued use of this flexibility, disposals of assets will need to be progressed at pace. In 2023/24, the expected requirement on the current Modernisation Fund is as shown in the table below and indicative requirements are given for 2024/25.

Modernisation investment for later years of the Medium-Term Financial Strategy will need to be informed by the 2024/25 budget process but will also need to be managed in a different way due to the ending of capital receipt flexibilities and the limited availability of revenue resources. Future modernisation business cases are therefore likely to need to become self-financing and generate a return on investment within a reasonable timeframe (2 to 5 years) to enable them to be undertaken. The investment can be funded by reserves (subject to availability) or netted off from savings proposals. The latter, however, reduces the contribution that savings make toward closing down budget gaps identified in the MTFs.

**Table: Modernisation and Enabling Investment**

Programme Area	2023/24	2024/25
	£m	£m
Invest to Save (4-Year Plans)	0.350	0.000*
Customer Digital	1.750	1.750
Modernisation enablers	0.940	1.040
Managing staffing changes	0.400	0.300
<b>Total</b>	<b>3.440</b>	<b>3.090</b>
<b>Funded by</b>		
Flexible use of capital receipts	3.240**	1.890**
Converted to mainstream funding	0.200	1.200
To be identified	0.000	0.000
<b>Total</b>	<b>3.440</b>	<b>3.090</b>

\* Invest to save projects will need to become self-financing

\*\* Subject to new capital receipts being realised before March 2025

The current elements of the Modernisation Fund are as follows:

- 4.13 Customer Digital: The council's Digital programme initially concentrated on developing the digital infrastructure and providing the web design and content management applications and tools necessary to develop digital services. In the last 3 years there has been development of a significant number of digital services and portals, particularly driven by the pandemic where digital access became critical to ensure accessibility and continuity of service. Digital forms, apps and services can enable enhanced data management and a better customer experience, however, supporting and continuing to mature the council's digital environment requires significant ongoing investment that ultimately should be mainstreamed within the annual revenue budget.
- 4.14 Modernisation Enablers: This investment covers project teams and staffing necessary to support service directorates in the delivery of large savings and improvement programmes. This includes Project & Programme Managers (PMO), Business Improvement analysts and 'Workstyles' project staff, as well as investment in the People Promise, internal communications and change management. This resource has become more critical over time as management and administrative savings have reduced services' staffing capacity to support improvement programmes directly. This resource should also be mainstreamed within the annual revenue budget if possible as councils now operate in an environment of permanent change driven by both national and local policy and ongoing financial challenges.
- 4.15 Invest-to-Save (4-Year Plans): These investments cover direct investment by services to enable them to achieve planned savings and improvements. This can include commissioning expert advice or professional services, providing temporary additional capacity, or investing in equipment, IT, training & development and systems developments to support service changes. Investments must be supported by Business Cases which are considered and scrutinised by the Corporate Modernisation Delivery Board (CMDDB) chaired by the Chief Executive. The use of the resources is focused on helping services modernise and achieve cost reductions and efficiencies as a further aid to achieving financial sustainability. As noted earlier, the limited availability of capital receipts and the ending of 'flexibilities' means that business cases will need to become self-financing in future i.e. generate a return on investment within a reasonable time period.
- 4.16 Managing Staffing Changes: Many savings measures will involve service redesign or modernisation (e.g. becoming more digital) that may have an impact on staffing requirements. This is normal within local authorities as they strive to improve value for money as part of their Best Value duty under the Local Government Act 1999 and as part of their budget strategies. Managing change often involves potential redundancy or supporting redeployment as a way of managing the process and this requires funding to meet potential severance costs and potential pension strain costs. The council's rules for good business practice require that severance costs should normally be repayable from associated staffing savings within 2 years.
- 4.17 The Modernisation Fund is currently managed by the Corporate Modernisation Delivery Board (CMDDB) chaired by the Chief Executive and including Executive

Directors and the CFO. Decisions regarding the detailed use of the Modernisation Fund are governed by Financial Regulations, and Committee and Officer delegations as set out in the Council’s constitution. Larger investment decisions, above £0.500m are therefore reported to committee as a matter of course as these are above officer delegations. Decisions leading to investment in capital assets are also reported to committee as per Financial Regulations, either as a separate report or through the capital appendices of Targeted Budget Management (TBM) monitoring reports.

### **HRA Capital Programme**

- 4.18 The capital plan for the HRA is split into two main areas in investment, this being improving the quality, safety, and energy efficiency of council homes and in new housing supply. Investment in existing stock is funded from direct revenue funding from tenants’ rents (including associated rent rebates) and HRA borrowing that is supported by tenants’ rents over a longer period. Whilst investment in new supply is mainly funded from retained capital receipts (including Right to Buy sales and commuted sums), grant funding and HRA borrowing.
- 4.19 The HRA capital investment programme for 2023/24 to 2027/28 is informed by the most recent stock condition review and survey as well as the existing and emerging priorities of the HRA Asset Management Strategy which is currently under review. Key considerations include improving the quality of homes and working in consultation with tenants and leaseholders to agree planned and major works programmes. Another emerging key priority relates to the investment required in Health & Safety requirements in anticipation of forthcoming legislative and regulatory changes impacting social housing landlords following the Grenfell Tower tragedy. Investment also continues in carbon reduction initiatives to support the city’s commitment of becoming carbon neutral by 2030.
- 4.20 The HRA continues to look at the range of initiatives it has to deliver additional housing and meet the commitment to deliver new affordable council homes. These initiatives include the New Homes for Neighbourhoods Programme, Home Purchase Scheme, Converting Spaces programmes and the Homes for the City of Brighton & Hove Joint Venture.
- 4.21 Work will continue through 2023/24 to deliver housing supply pipeline schemes. The Home Purchase Scheme will continue to explore opportunities to buy back ex-right-to-buy properties, whilst the extended Home Purchase Scheme will look at off the shelf purchase opportunities to increase the supply of affordable housing within the HRA.

## **5 TIMETABLE**

- 5.1 The indicative timetable for developing and approving the 2024/25 budget and MTFS is given below. The timetable is in outline only and does not include all aspects of member involvement or wider consultation that will normally need to be undertaken with staff, unions, partners, service users and residents.

**Table: Outline General Fund Budget Planning Timetable**

<b>Date</b>	<b>Who</b>	<b>What</b>
13 July 2023	SFCR Committee	TBM Month 2 Forecast 2023/24 General Fund Budget Planning & Resource Update 2024/25
July – Oct	ELT	Develops Medium Term service and financial plans including the workstreams set out in this

Date	Who	What
		report (para 3.15) and budget proposals to address budget gaps for 2024/25 to 2027/28
5 Oct 2023	SFCR Committee	TBM month 5 (August)
Oct/Nov	Government	Possible Autumn Statement announcement
7 Dec 2023	SFCR Committee	TBM month 7 (October) Council Tax Reduction Scheme Review 2024/25
December	Government	Provisional Local Government Finance Settlement 2024/25
25 Jan 2024	SFCR Committee	Council Tax and Business Rates Tax Base report
February	Government	Final Local Government Financial Settlement 2024/25
8 Feb 2024	SFCR Committee	2024/25 General Fund and HRA Revenue & Capital Budget reports including the Capital and Treasury Management strategies. TBM month 9 (December).
22 Feb 2024	Budget Council	Approval of the 2024/25 General Fund and HRA Revenue & Capital Budget including the Capital and Treasury Management strategies.

## 6 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 6.1 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, including amendments, to Budget Council on 22 February 2024. Budget Council has the opportunity to debate the proposals put forward by the Strategy, Finance & City Regeneration Committee at the same time as any viable alternative proposals.

## 7 COMMUNITY ENGAGEMENT AND CONSULTATION

- 7.1 No specific consultation has been undertaken in relation to this report. However, the development of the council's budget is a major undertaking and proposals can affect a wide range of services. Consultation and engagement will need to be undertaken with staff, unions, partners, service users, residents and the community and voluntary sector as appropriate. Proposals for consultation and engagement will be developed with the Administration for the Autumn/Winter period in advance of proposals coming forward in February for full Council approval. This report will also be shared widely as it signals to all stakeholders the anticipated financial challenge facing the council for next year and beyond.

## 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 information on projected costs, investments and resources for 2024/25 to 2027/28. It also provides an outline timetable for considering options to develop the 2024/25 annual budget and MTFs.

## 9 Financial Implications:

- 9.1 These are contained in the body and appendices of the report.

## **10 Legal Implications:**

- 10.1 The process of formulating a plan or strategy for the council's revenue and capital budgets falls within the Scheme of Delegation for Strategy, Finance & City Regeneration Committee.
- 10.2 This report complies with the Council's process for developing the budget framework, in accordance with the Council's Budget and Policy Framework Procedure Rules as set out in Part 7.2 of the Constitution.

Lawyer Consulted: Elizabeth Culbert Date: 03/07/23

## **11 Equalities Implications:**

- 11.1 For any significant budget changes proposed in 2024/25, it is proposed to use the council's well-established screening process to develop Equality Impact Assessments (EIAs). Key stakeholders and groups will be engaged in developing EIAs but it will also be important to consider how members, partners, staff and unions can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, there may be a need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of funding pressures across the public and/or third sectors. The process will ensure that consideration is given to the economic impact of proposals.

## **12 Sustainability Implications**

- 12.1 The council's revenue and capital budgets will be developed with sustainability as a key consideration to ensure that, wherever possible, proposals can contribute to reducing environmental impacts and support progress toward a carbon-neutral city.

## **13 Other Implications**

### **Risk and Opportunity Management Implications:**

- 13.1 There are a range of risks relating to the council's short and medium term budget strategy including the ongoing economic impact of the higher inflationary environment, the impact of the cost of living crisis, further potential reductions in grant funding, the impact of legislative changes, and/or other changes in demands. The budget process will normally include recognition of these risks and identify potential options for their mitigation. In the current volatile financial climate, the level of risk that the council may be prepared to carry is likely to be higher than in normal circumstances. An indication of potential risks and sensitivities is given in Appendix 3 of the report.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

- 1. Medium Term Financial Assumptions and Projections
- 2. Resources Update
- 3. MTFS Risks and Sensitivities