

Subject:	General Fund Budget Planning & Resources Update 2022/23		
Date of Meeting:	1 July 2021		
Report of:	Acting Chief Finance Officer		
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Ward(s) affected:	All		

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 2022/23 annual budget setting process and in the context of the ongoing pandemic. This inevitably makes cost, income and funding projections very challenging given the unknown extent of pandemic financial impacts locally, and in the absence of any multi-year government funding announcements for local government which may also be affected by the impact on national finances. The lack of clarity regarding the long term funding of Adult Social Care is also of significance to financial planning.
- 1.2 In this situation, as last year, the council will need to consider a range of potential planning scenarios by considering best, midpoint and worst case scenarios for costs, funding and incomes, including taxation revenues. However, even this is unlikely to cover all potential outcomes which then brings into consideration the appropriate level of reserves and balances required to maintain financial resilience and sustainability over the medium term.
- 1.3 Even though government funding information is not yet available and there is great uncertainty in the planning assumptions for the 2022/23 budget, good practice suggests that the council should attempt to look further ahead and draw up a Medium Term Financial Strategy (MTFS) covering at least a 3-year period to 2024/25. Although uncertain, this can at least provide a high level indication of how costs and resources may change and enables consideration of whether or not this provides opportunities to strategically manage finances across the whole period.

2. RECOMMENDATIONS:

The Policy & Resources Committee is recommended to:

- 2.1 Note the funding and net expenditure projections for 2022/23, based on the three planning scenarios.
- 2.2 Note the Medium Term Financial Strategy (MTFS) projections for 2022/23 to 2024/25 and the predicted budget gaps based on a 'midpoint' planning scenario.

- 2.3 Note the proposed approach to planning for and managing specified demand-led budgets.
- 2.4 Agree that officers should draw up 3-year budget strategies, including associated cost management measures for demand-led services, together with budget proposals to manage any remaining budget gap across all other services, and report back with draft budget proposals to the December Policy & Resources Committee.

3. MEDIUM TERM BUDGET PLANNING

Financial Impact of the Covid-19 Pandemic

- 3.1 The pandemic not only increased social care, homelessness, public health, PPE, coroner and other related emergency response costs but has also severely impacted the local economy, which has many sectors that are heavily reliant on visitors to the city. This has in turn resulted in an impact on the council's finances due to significant impacts on incomes such as the Brighton Centre and substantial losses across other fees & charges, particularly parking charges, penalty notices and commercial property rents.
- 3.2 Similarly, taxation revenues were affected due to the impact on businesses and employment, and more people needing financial support such as Council Tax Reduction. There has also been a slow-down in housing developments and Council Tax collection rates have been impacted severely. There are similar impacts in relation to Business Rate growth and collection rates.
- 3.3 Government emergency funding has largely covered the financial impacts of Covid-19 in 2020/21 including some cover for taxation losses (Collection Fund deficits). Further one-off government Covid funding of £11m has been received for 2021/22 alongside continued compensation for 75% of income losses in quarter 1, however, it remains to be seen if this will match the extent of the financial impacts of the pandemic which, for some aspects of council costs and incomes, could be long-lasting depending on economic recovery. Certain sectors, for example retail, were already vulnerable prior to the pandemic and this sector may be further impacted with a correlated impact on business rate revenues and commercial rent income from the council's commercial property portfolio.

Local Financial Planning Context

- 3.4 Prior to the pandemic, the government issued a one-year financial settlement for local authorities which was a different approach for 2020/21. Due to the pandemic, this was followed up with a further one-year Spending Review settlement for 2021/22 and therefore Local Government still awaits a longer term, multi-year Spending Review which it will hope to receive in Autumn 2021.
- 3.5 Aside from the pandemic, the context of the council's General Fund budget setting is now very different to the past. Government grant support to local authorities has reduced considerably since 2009/10 and is now approximately £112m lower (excluding one-off grants). The council's General Fund is now funded primarily by local taxation and fees & charges with only £6.7m from government Revenue Support Grant (RSG) and a limited number of specific grants of which the most significant are social care grants as follows:
 - Council Tax: £154.5m
 - Fees & Charges for services: £137.1m

- Business Rates (locally retained share): £66.8m
- Government Revenue Grant Support: £6.7m
- Adult Social Care and Better Care Fund Grants £17.2m

The only other significant funding relates to Section 31 grants. However, these are purely to compensate local authorities for business rate losses related to government-determined rate reliefs.

- 3.6 The continuation of social care grants, including the Better Care Fund, are clearly critical to the local authority and these are a key element of funding that local government would prefer to see built into the permanent funding base alongside recognition of nationally and locally growing social care demands.
- 3.7 The detailed Local Government Finance Settlement (LGFS) is not normally made available until late November or December each year, following autumn Spending Review announcements, which provides little time to alter financial planning assumptions before setting the budget and Council Tax level. As a result, the budget setting process each year should allow flexibility to manage any adverse fluctuation in the level of announced resources, particularly in the current situation where there are many unknowns regarding potential government support for the ongoing impact of the pandemic and Adult Social Care. This necessarily requires a prudent approach in order to:
- (i) keep risks at an acceptable level and maintain financial resilience and sustainability;
 - (ii) minimise arbitrary, last minute cuts to services to balance the budget; and/or
 - (iii) avoid exhausting the authority's reserves and balances (one-off resources) without any plan to replenish them.
- 3.8 This report includes an early assessment of the 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 normal inflationary pressures, these demand-led cost pressures have been the cause of substantial 'budget gaps' that the council has been experiencing over the last 12 years. The impact of the pandemic may add another layer of pressures that could exacerbate pressures in 2022/23 and beyond.
- 3.9 Effective financial planning has become increasingly important over recent years due to the increasing financial challenges. Losing grip of the council's finances and the consequent impact on services has serious reputational implications and in cases where this has happened, the members of the authority have generally had to cede control of the situation because the level of external scrutiny, challenge and/or government intervention has escalated accordingly. Recent examples include:
- Public Interest Reports and Statutory Section 114 reports being issued by External Auditors and Chief Finance Officers (CFOs) respectively. The latter restricts all spending, bringing with it associated media and reputational impact as noted recently in the case of Croydon LBC;
 - Related objections to the accounts which must be investigated by the external auditor;

- Legal challenges from residents in respect of council decisions, particularly where urgent cuts have had to be approved to balance the books;
- Intervention by government in respect of failing services where they can appoint commissioners to take over whole services, Liverpool being a recent example;
- In the severest case, Northamptonshire, direct intervention by government has resulted in the dissolution of the authority and creation of two new unitary authorities from April 2021.

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. In the current context, External Auditors will be looking closely at authorities' plans and approaches for managing the impacts of the pandemic and their remit for assessing Value for Money has accordingly been strengthened for the 2020/21 audit onward.

Reserves & Balances

3.10 In this context, 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 those that are cash-backed and are not due to be drawn down for at least one year. This excludes balances held by the Housing Revenue Account and Schools which are not available to the General Fund. Levels are currently as follows:

- Working Balance £9m – this is a permanent risk reserve and therefore any use must be accompanied by a plan for replenishment;
- Earmarked reserves £33m – Earmarked reserves are committed against an approved scheme or expense. Many are held against contractual commitments (e.g. PFI contracts) or are risk provisions (e.g. Self-Insurance Fund) and must be replenished if used. Some are held against regeneration projects (e.g. New England House, Brighton Centre/Waterfront development, etc) and are linked to match funding from the LEP or other government funds. Many are held against future risks or commitments and would therefore need to be replenished.

The Chartered Institute of Public Finance & Accountancy (CIPFA) has generated a 'Resilience Index' covering a wide range of financial indicators that can provide an insight into the financial health of an authority. The level of reserves as a proportion of the net budget is one such measure. BHCC ranks 12th lowest out of 15 'nearest neighbour' authorities which are selected for their similar demographic and financial characteristics (they are not geographical neighbours). BHCC's reserves, in 2019/20, were shown to be 19% of net budget. The range of the comparator group is 67% to 15% and the average is 43%.

A more detailed analysis of the council's reserves and balances as at 31 March 2021 is provided in the Targeted Budget Management (TBM) Provisional Outturn report also on this committee agenda.

2022/23 Budget Planning Scenarios

3.11 Due to the national and local economic uncertainties and the potential impact on finances, three potential cost, income and funding scenarios are considered for

2022/23 to illustrate a potential range of impacts. The scenarios considered are as follows:

Table: Planning Scenarios 2022/23

Cost, Income & Taxation Scenario	Scenario Description/Assumption
Worst Case	Slow economic recovery. Council Tax Reduction caseload remains above long-term trend. Council Tax base and collection rates remain suppressed well into 2022/23. Higher rate of business failures continue while visitor numbers only recover slowly. Cost pressures across demand-led services such as Adult Social Care and Homelessness remain at higher levels. Fees & Charges such as property rent incomes remain suppressed.
Midpoint Case	Economic recovery starts slow but steadily gathers pace. Council Tax Reduction caseload steadily reduces. Moderate impact on Council Tax base and collection rate. Business failures are apparent, but business start-ups and recovery also begin. Steady recovery of visitor numbers. In-roads begin to be made into cost pressures across demand-led services but they remain at elevated levels of demand. Fees & Charges and property rents begin to recover to normal levels after the first quarter.
Best Case	Economy 'bounces' back relatively quickly once fully out of lockdown. Council Tax Reduction caseload falls quickly as employment increases. Limited, short term impact on the Council Tax base and collection rates. Business failures are significantly offset by start-ups or recovery. Visitor numbers also recover quickly and may even improve due to 'staycationing'. Significant stabilisation and mitigation of demand-led cost pressures is achievable. Fees & Charges and property rents recover to normal levels after first quarter.
Grant Funding Scenarios	Assumptions
Worst	A low level of funding due to the impact of the pandemic on national finances and debt could look as follows: <ul style="list-style-type: none"> - Ongoing COVID-19 impact funding of £2.0m - Adult Social Care grant of £1.0m - Troubled Families funding withdrawn - Additional Homelessness funding of £0.5m
Midpoint	A level of funding broadly similar to a 'rolled-forward Spending Review' might look as follows: <ul style="list-style-type: none"> - Ongoing COVID-19 impact funding of £3.0m - Adult Social Care grant of £2.0m - Troubled Families funding continues (worth £0.9m) - Additional Homelessness funding of £1.0m
Best	An improved level of funding, particularly for Adult Social Care, and greater recognition of ongoing pandemic

	<p>impacts could look as follows:</p> <ul style="list-style-type: none"> - Ongoing COVID-19 impact funding of £5.0m - Adult Social Care grant of £2.5m - Troubled Families funding continues (worth £0.9m) - Additional Homelessness funding of £1.5m
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- 3.12 There will be variants of these scenarios in between but these serve to illustrate the expected range of possible outcomes from worst to best case for all elements of the council's budget and funding.
- 3.13 In terms of additional funding support, the level of support and the form it may take are unknown. However, the government has not made clear its intentions regarding the long term funding of Adult Social Care which presents a significant risk. In 2021/22, this was partially mitigated by increasing local taxation through a 3% Adult Social Care precept. However, this precept was over a 2-year period and therefore, unless government revisits this mechanism, this council will not be able to levy a further Adult Social Care precept in 2022/23. The council will therefore be reliant on increased government grant support for Adult Social Care.
- 3.14 The level of funding for Homelessness and Rough Sleepers is also a significant risk and the council will be heavily reliant on this remaining at current levels as a minimum. There are also concerns about the Troubled Families grant which has been expected to discontinue for some time but was 'rolled-forward' in the two one-year settlements in 2020/21 and 2021/22. This will hopefully be retained in the next Spending Review.
- 3.15 For planning purposes, it is recommended to use the 'Midpoint' case to develop budget proposals but with consideration of options to meet a worst case scenario also given, as far as practicably possible. Using the Midpoint scenario strikes a reasonable balance for planning purposes, with a less favourable outcome potentially being managed through increased reserve use in the short term ('financial smoothing').

Addressing Budget Shortfalls (Gaps)

- 3.16 The difference (shortfall) between the estimated costs, demands and funding pressures that the council identifies compared to estimated increases in taxation incomes is termed the Budget Gap. The budget gap can be closed by identifying savings, generating increased income or funding, or developing cost avoidance measures.
- 3.17 In summary, the broad options or possibilities for closing any projected budget gaps are as follows:
- (i) Government may provide increased funding (compared to the level assumed) through the Local Government Financial Settlement. Potential grant funding for Adult Social Care and Covid-19 are examples discussed above;
 - (ii) The council could elect to increase Council Tax above the current 'excessive council tax increase threshold' (i.e. above 1.99%). However, under current regulations this would require a local referendum to be held with a successful outcome, and in itself creates a cost of approximately £0.375m to hold a referendum and requires identification of one-off resources to mitigate the delay in implementing proposals while the outcome is awaited;

- (iii) Partners could provide increased funding for joint operations e.g. CCG funding toward social care costs. However, the CCG has reduced funding support in previous years because it is also under increasing financial pressure. Other partners are small by comparison;
 - (iv) There may be improvements in the projected level of cost, income and/or demand pressures to be prioritised in the current estimates;
 - (v) The council develops budget strategies across its major service directorates including identification of potential savings 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.
- 3.18 Options (i) to (iv) above carry a high level of uncertainty and therefore the authority will normally need to develop budget strategies and proposals as described in (v) above. In the case of a Council Tax Referendum, it is a legal requirement to have a substitute budget should a referendum not be successful.

Budget Strategies to support the Corporate Plan

- 3.19 The 2021/22 General Fund budget was set in the context of the council's Corporate Plan 'A fairer city, a sustainable future'. The budget, approved in February 2021, included approximately £22m in support of Corporate Plan priority areas, including provision for key demand-led services.
- 3.20 Budget planning also needs to continually keep under review current budget strategies to ensure they remain fully aligned with the implications and priorities set out in the Corporate Plan. Some current income sources may, for example, be impacted in future by carbon reduction initiatives, while traditional procurement economies may be impacted by Community Wealth Building or Social Value initiatives. Conversely, Corporate Plan objectives could bring new revenues, for example, through investment in infrastructure for electric vehicles. The impact of the pandemic makes it more important to test out these strategies given the higher level of financial risks that the pandemic has exposed.
- 3.21 In 2021/22 the budget also provided significant investment for Corporate Plan priorities including carbon reduction investment to support the Carbon Neutral Programme. Almost £1.5m recurrent funding was identified to support various Corporate Plan priorities together with £1m one-off funding and over £14m capital investment, including significant investment in the Sustainable Carbon Reduction (SCRIF) and Warmer Homes initiatives. The Medium Term Financial Strategy assumes a continued need to invest in Corporate Plan priorities, particularly in support of the Carbon Neutral Programme for which £0.5m has been set aside which can either be used to support revenue costs or provide capital financing support. The level of investment in future years will need to take into account the level of funding and support from central government through green finance, natural capital and other programmes. Similarly, provision of £0.5m has been included to support a range of other priorities set out in the Corporate Plan.
- 3.22 The major service directorates developed Budget Strategies for 2021/22 which remain current but will be updated for 2022/23 and the medium term. The budget strategies identify the longer term direction of travel of services, the approach to the commissioning and delivery of services, the alignment of budget strategies with the council's Corporate Plan priorities, proposals and strategies

for managing demand-led budgets, and proposals for achieving cost savings or increased income to help address budget gaps.

3.23 Based on the experience of recent years' budget setting processes, a different approach to financial planning for priority demand-led services is proposed for 2022/23. In the past, these services have traditionally identified very substantial demographic and cost driven budget pressures, for example, in 2021/22 the budget pressure identified was £19.1m across demand-led services. In common with previous years, this was a key driver of the overall budget gap in 2021/22 requiring savings of £10.644m to close the gap and achieve a balanced budget. However, in the event, over £5m of these 'savings' were related to managing costs in demand-led budget areas. A review of the process indicates that it is not technically correct to regard these as 'savings' proposals because they are effectively ever-ongoing measures to manage limited resources by continually evolving and developing commissioning, prevention and intervention strategies that are designed to improve cost management over the medium term.

3.24 For 2022/23, specified demand-led budgets will therefore present a forecast cost pressure scenario together with a forecast of the potential cost management achievable through Budget Strategies aimed at continually improving commissioning, contracting, prevention, intervention, care plans and pathways, joint working with partners (e.g. Health) and so on. The services to be presented in this way will be:

- Adult Social Care
- Adult Learning Disability Services
- Children's Social Care including Disability Services
- Homelessness and Rough Sleeping
- Home to School Transport

This will not include the associated administrative, assessment, commissioning or contract management functions within these areas. It will only relate to the demand-led budgets managed by these services.

2022/23 Scenario Projections

3.25 The table below sets out the costs, losses and investment requirements under the three scenarios outlined in paragraph 3.11 above.

Table: Investments, Cost Pressures & Tax Base Scenarios 2022/23

Budget Area	Worst Case	Midpoint Case	Best Case
	£m	£m	£m
Net Demand-Led & Other Cost Pressures:			
Increase in Budget Requirement 2022/23 (see Appendix 1)	15.030	15.030	15.030
2021/22 excess pay award cost	2.350	1.680	1.680
Demand lead Service pressures			
• Adult Social Care	4.800	4.000	3.000
• Adult Learning Disabilities	2.500	2.000	1.800
• Looked After Children/Care Leavers	3.000	2.400	1.500
• Loss of Troubled families funding	0.950	0.000	0000
• Temporary accommodation/rough	4.200	2.500	2.000

sleeping			
• Home to School Transport	0.500	0.200	0.200
Illustrative cost management through application of budget strategies (Appendix 3)	-4.950	-5.100	-5.700
All other services – recurrent pressures	1.500	1.000	0.800
Orbis net disaggregation pressure	0.700	0.500	0.400
Carbon Neutral Investment	0.500	0.500	0.500
Corporate Plan priorities	0.500	0.500	0.500
Potential one off pressures			
Covid impact on commercial income	0.600	0.400	0.150
Covid impact on other income	1.500	1.000	0.500
Covid impact on Supported Bus routes	0.400	0.300	0.200
Ash dieback/Elm Disease	0.600	0.500	0.500
Net Demand-Led & Other Cost Pressures	34.680	27.410	23.060

3.26 The scenarios above indicate net Demand-Led and other cost pressures in the range of £34.680m to £23.060m. Similarly, potential funding scenarios are given below based on assumptions described in paragraph 3.11 above.

Table: Funding Scenarios 2022/23

Funding Scenarios	Worst Case	Midpoint Case	Best Case
	£m	£m	£m
Council Tax – change in tax base	1.000	1.950	2.500
Council Tax - increase at 1.99%	3.090	3.110	3.120
Council Tax – Adult Social Care precept	0.000	0.000	0.000
Business Rates – change in tax base	0.000	0.610	0.900
Business Rates – inflation increase(CPI)	0.610	0.610	1.100
ASC funding	1.000	2.000	2.500
Covid-19 ongoing impact funding	2.000	3.000	5.000
Additional homelessness/Rough sleeping funding	0.500	1.000	1.500
Use of reserves/financial smoothing for one off pressures identified above	3.100	2.200	1.350
Total Funding Assumptions	11.300	14.480	17.970

3.27 Combining the projected net cost pressure and funding/taxation scenarios illustrates the range of potential budget gaps as set out in the table below which can be considered for financial planning purposes. This provides the committee with a sense of the range of risks that the council may need to consider, particularly in the case where costs continue to escalate, recovery is slow, and any funding settlement from government is at the lower end.

Table: Range of Potential Budget Gaps 2022/23

Cost & Income Pressures Scenario:	Worst	Midpoint	Best
Aligned with:	£m	£m	£m
Worst Funding/Taxation Levels	23.380	16.110	11.760
Midpoint Funding/Taxation Levels	20.200	12.930	8.580
Best Funding/Taxation Levels	16.710	9.440	5.090

- 3.28 The table above shows the complexity of planning in the current environment where there is uncertainty over almost every aspect of the council's budget from inflation, demographic changes and Covid-19 impacts to tax base recovery and grant funding levels. The table indicates a range of potential budget gaps in 2022/23 from £23.380m at worst down to £5.090m at best. However, this assumes that one-off pressures relating to Covid-19/Tree Dieback and the spreading of the Collection Fund deficits over a 3-year period can be resourced from reserves (i.e. further Financial Smoothing) or other one-off resources for 2022/23.
- 3.29 Planning on the basis of all elements being at the Best or most optimistic level would be a high risk strategy, while planning for the Worst or least optimistic scenario would mean undertaking substantial additional work to identify and plan for savings or cuts that may never be required. The Midpoint therefore represents the most sensible balance for planning purposes at this stage of the process. However, it must be remembered that all estimates are very early in the process and are subject to change as they are reviewed and updated throughout the budget process. In particular, cost management assumptions for demand-led budgets are inextricably linked to the concomitant service pressure estimates. At this stage broad, illustrative assumptions have been made based on previous cost management achieved in these areas, tempered for the lower scale of pressures and the impact of the pandemic.
- 3.30 Using the Midpoint cost and funding level indicates a potential budget gap of £12.930m which is after allowing for cost management improvements of £5.100m for the key demand-led service areas as set out above and in Appendix 3. The budget gap would therefore need to be addressed by identifying savings across all other service areas excluding demand-led budgets, informed by Corporate Plan and member priorities.

Medium Term Financial Strategy Update 2022/23 to 2024/25

- 3.31 The table below summarises the MTFs estimates and predicted budget gaps for the next 3 years based on the following key assumptions:
- 1.99% Council Tax increases;
 - Midpoint scenario for net reductions in tax bases;
 - Midpoint scenario for government funding assumptions;
 - 1.5% pay awards;
 - 1.5% income budget uplifts;
 - 2.00% Social care third part payments
 - 0.75% to 1.00% non-pay budget cash limits;
 - 1.00% assumed inflation rate for Business Rate uplifts;

- Continued investment in priority demand-led services and Corporate Plan priorities;
- Repayment of reserves & balances used for COVID-19 over a 10 year period.

Table: Indicative Medium Term Financial Strategy

Summary MTFS and Budget Gaps	2022/23	2023/24	2024/25
	£m	£m	£m
Commitments (from previous decisions)	1.704	1.078	3.637
Provision for grant reduction/ending	8.023	4.000	0.000
Net Inflation (on Pay, Prices, Income, Pensions)	5.303	4.876	5.535
Subtotal	15.030	9.954	9.172
Net Investment in priority services and Corporate Plan priorities	10.180	5.150	5.000
New grant funding assumed	-6.000	-1.000	-1.000
Projected Net Tax Base changes	-6.280	-5.679	-8.560
Predicted Budget Gaps	12.930	8.425	4.612

3.32 The MTFS projections could be affected by a wide range of factors, including pandemic impacts, as follows:

- Higher or lower demands and cost pressures than projected;
- Higher or lower cost management improvements in demand-led areas;
- Higher or lower tax base movements;
- Movements in pay or general inflation;
- More or less favourable government grant settlements;
- Potential impact of changes to the 'excessive council tax' capping rules and/or precepting;
- Changes in interest rates (impacts on financing budget); and
- Actuarial changes to employers' LG pension contributions.

Many of these can have significant impacts on MTFS projections in either direction.

3.33 Based on the analysis above, which includes many unknowns and broad estimates, it is recommended to instruct the Executive Leadership Team (ELT) to develop options to address budget gaps over the MTFS period 2022/23 to 2024/25 based on a Midpoint cost and funding scenario for all years. Consideration should also be given to strategies for managing higher potential budget gaps to avoid emergency or arbitrary decisions being required late in the budget process.

3.34 The Committee will note that the projected budget gap in 2022/23 is very substantial and this presents severe challenges following large savings targets over many years. The council will therefore need to clearly prioritise services and investment, balancing its duties in relation to statutory service provision with discretionary and/or universal service provision and priority areas for investment and support.

4. CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME

General Fund

5 Year Capital Investment Programme

- 4.1 The Capital Strategy was approved at Budget Council in February 2021 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 on the full Council 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:

- 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 works and upgrades;
- The Strategic Investment Fund (SIF) to provide project support for major regeneration programmes;
- Vehicle and plant replacement annual 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 the seafront infrastructure and partnership investment through major projects such as Valley Gardens, Preston Barracks, Brighton Waterfront, New Homes for Neighbourhoods, the Home Purchase scheme, the Housing Joint Venture, Heritage Lottery Fund bids such as the Stanmer Park Master Plan and 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 (C2C LEP) to

support the Brighton Waterfront and Valley Gardens Phase 3 projects. Other schemes which are substantially complete include Preston Barracks Central Research Laboratory, and the Circus Street Redevelopment. Longer term investment for coast protection is also incorporated into the 5 year strategy which includes potential government match-funding.

4.5 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 & Enabling Investment

4.6 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.

4.7 The Modernisation Fund will be kept under review as budget plans develop and spend-to-save opportunities and investment requirements emerge in more detail.

Programme Area	2020/21	2021/22	2022/23	2023/24	Total
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	£m
Invest to Save (4-Year Plans)	0.650	0.550	0.450	0.350	2.000
Customer Digital	1.750	1.750	1.550	1.050	6.100
Modernisation enablers	1.510	0.920	0.930	0.940	4.300
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
Total	5.410	4.020	3.330	2.740	15.500

The current elements of the Modernisation Fund are as follows:

- 4.8 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 two years there has been development of a significant number of digital services and 'apps', 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. Digital developments enabled thousands of businesses to apply on-line and access Covid-19 business grants during the pandemic.
- 4.9 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 during the pandemic where staff providing day-to-day services have very limited capacity to support improvement programmes.
- 4.10 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, 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 also needs to be reviewed in the light of the pandemic and where possible used to help services modernise and achieve cost reductions as a further aid to achieving financial sustainability.
- 4.11 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 requires seeking voluntary redundancy or supporting redeployment as a way of managing the process and this requires funding to meet redundancy costs and potential pension strain costs.
- 4.12 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 according to Financial Regulations, and Committee and Officer delegations set out in the Constitution. Larger investment decisions, above £0.500m, are reported to Policy & Resources Committee as these are outside of officer delegations. Decisions leading to investment in capital assets are also be reported to Policy & Resources Committee either as a separate report or through the capital appendices of Targeted Budget Management (TBM) reports.

HRA Capital Programme

- 4.13 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents (and associated rent rebates) as well as the use of

retained capital receipts from Right to Buy sales and borrowing for investment in new affordable homes.

- 4.14 The capital investment programme for 2021/22-2023/24 is informed by the stock review and survey and the new HRA Asset Management Strategy 2021-2025. A key consideration will be the investment needed to fulfil the new health and safety requirements as a result of new Government safety guidelines in light of the Grenfell Tower fire.
- 4.15 The HRA continues to look at the range of initiatives it has to deliver additional housing and meet the Housing Committee Work Plan priority commitment to deliver 800 additional council homes by 2023. These initiatives include the New Homes for Neighbourhoods Programme, Home Purchase Scheme and Converting Spaces programmes.
- 4.16 Work will continue through 2021/22 to delivery housing supply pipeline schemes. The Home Purchase Scheme will continue to explore opportunities to buy back ex-right to buy properties to increase the supply of affordable housing within the HRA.
- 4.17 The budget for new homes 2022/23 will need to consider the resources required to support this level of delivery both in terms of capital resources available for building and purchasing of new homes and the revenue resources required to support this work.

5. TIMETABLE

- 5.1 The suggested timetable for developing and approving the 2022/23 budget is given below. However, the timetable may need to flex depending on the timing of government announcements or in response to a dramatically changing in-year situation. The timetable is in outline only and does not include all aspects of member involvement or wider consultation that may need to be undertaken including with staff, unions, partners, service users and residents.

Table: Outline General Fund Budget Planning Timetable

Date	Who	What
1 July 2021	P&R Committee	2020/21 TBM Provisional Outturn 2021/22 TBM Month 2 (May) General Fund Budget Planning & Resource Update
July – Oct	ELT	Develops Budget Strategies and budget proposals to address budget gaps for 2022/23 to 2024/25 alongside developing Equality Impact Assessments
7 Oct 2021	P&R Committee	TBM month 5 (August) Council Tax Reduction Scheme Review 2022/23
21 Oct 2021	Council	Approves Council Tax Reduction Scheme 2022/23
Oct/Nov	Government	Likely Spending Review 2021 Announcement
2 Dec 2021	P&R	General Fund Revenue Budget Update 2022/23 including draft Budget Strategies, budget proposals and Equality Impact Assessments. TBM month 7 (October)
December	Government	Provisional Local Government Finance Settlement
December	ELT	Consultation process begins on draft 2022/23 budget proposals including staff, unions, partners and residents

27 Jan 2022	P&R	Council Tax Base Business Rates tax base
February	Government	Final Local Government Financial Settlement
10 Feb 2022	P&R	2022/23 General Fund and HRA Revenue & Capital Budget reports including the Capital and Treasury Management strategies TBM month 9 (December)
24 Feb 2022	Budget Council	2022/23 General Fund and HRA Revenue & Capital Budget reports

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 through amendments, to Budget Council on 24 February 2022. Budget Council has the opportunity to debate the proposals put forward by the Policy & Resources 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.

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 2022/23 to 2024/25. It also provides an outline timetable for considering options to develop the 2022/23 budget.

9. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: James Hengeveld

Date: 21/06/21

Legal Implications:

- 9.2 The process of formulating a plan or strategy for the council's revenue and capital budgets is part of the remit of the Policy & Resources Committee. The recommendations in section 2 above are therefore proper to be considered and, if appropriate, approved by it.
- 9.3 This report complies with the council's process for developing the budget framework, in accordance with Part 7.2 of the Constitution.

Lawyer Consulted: Elizabeth Culbert

Date: 23/06/21

Equalities Implications:

- 9.4 For any significant budget changes proposed in 2022/23, 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 we will also need to consider how Members and Partners 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.

Sustainability Implications

- 9.5 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.

Risk and Opportunity Management Implications:

- 9.6 There are a range of risks relating to the council's short and medium term budget strategy including the ongoing impact of the pandemic, ongoing economic conditions (e.g. the changing shape of high street retail), changes in the national budget, pressures on existing budgets, further potential reductions in grants, legislative change or demands for new spending. The budget process will normally include recognition of these risks and identify potential options for their mitigation. In the current unprecedented situation, the level of risk that the council may be prepared to carry is likely to be higher than in normal circumstances.
- 9.7 Key factors (risks) for projecting the savings requirements for 2022/23 and future years will be taken into consideration including:
- An assessment of how robust and deliverable the savings that come forward are in the context of current demands, economic conditions, changing needs and the ongoing impact of the pandemic;
 - The accuracy with which tax base estimates and other assumptions, particularly the level of business rate appeals, can be made;
 - The continuing impact of Welfare Reform changes such as Universal Credit e.g. on Temporary Accommodation (homelessness), in particular, the ongoing impact of the application of the Benefit Cap and the pandemic;
 - The impact of economic conditions e.g. property price rises have been impacting on temporary accommodation costs and care home provision and availability. Also, the buoyancy of many income streams can be affected by economic conditions e.g. commercial rents. This is now potentially more volatile both as a result of the pandemic and as 'Brexit' progresses, although the full impact of these may not be known for some time;
 - The impact of demographic and other changes e.g. immigration, public health issues (e.g. obesity), drug improvements (e.g. treating dementia), increasing longevity with health conditions, etc.

SUPPORTING DOCUMENTATION

Appendices:

1. Medium Term Financial Strategy Assumptions and Projections
2. Resources Update
3. Demand-Led Budget Projections

Documents in Members' Rooms

None

Background Documents

None