Brighton & Hove City Council

Policy & Resources Committee — Agenda Item 10

Subject: General Fund Budget Planning & Resources Update 2023/24

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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 2023/24 annual budget setting and medium term planning process. While the previous two budget rounds were conducted during a period of great uncertainty surrounding the financial impacts of the pandemic, the financial results for 2020/21 and 2021/22 show that government support for Covid-19 was effective and was key to helping the authority manage exceptional costs and demands over the 2-year period. In the current year, Covid-19 funding support has now ceased and this is already exposing some ongoing financial impacts, such as continuing high Council Tax Reduction claimant numbers and, due to the suppressed economy, reduced incomes from planning fees and commercial rents. These trends will need to be monitored during 2022/23 but these are indicators that economic recovery has some way to go before returning to pre-pandemic levels.

1.2 The budget process for 2023/24 will therefore be commencing in a period of equal, if not greater, uncertainty and risk due to a wider range of challenges including:

- Ongoing economic and health impacts of the pandemic, which are currently driving higher costs e.g. for staffing, contracts, homelessness and local welfare support;
- A period of significantly higher inflation which is driving up pay, energy and social care provider costs as well as other supplies and contractual costs;
- A cost of living crisis caused by high inflation, driven by European and World events, which could increase demand on council services including everything from higher Council Tax Reduction claims to increased need for Mental Health services, homelessness provision, or children and family support;
- Significant uncertainty over the financial impact of Social Care Reforms which are widely expected to place additional financial pressures on local authorities;
- A one-year Local Government Financial Settlement from central government for 2022/23, which means there is no certainty over the resources expected to be available to local authorities for 2023/24 or beyond.

1.3 Although the government announced a high level, multi-year spending review last year, this does not provide local authorities with any reliable information on which to set budgets. The last point in paragraph 1.2 above is therefore fundamental and means that in starting the planning process for 2023/24 the authority will need to make some key judgements about likely levels of government funding support, which will not be known or confirmed until autumn/winter 2022. 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 high inflation and the cost of living crisis will persist, and the time period for full economic recovery from the pandemic.

1.4 In this situation, as for the previous two years, the council will need to consider a range of potential planning scenarios by considering the worst, most likely and most optimistic scenarios for costs (inflationary and demographic), government funding, fees & charges incomes, and taxation revenues. This is clearly an unenviable position and carries with it very high risks. Being too optimistic could impact on financial sustainability in the short and medium-term if the situation turns out to be significantly worse, and, vice versa, being too pessimistic could result in unnecessary or damaging cuts to essential services. Although the council has no unallocated reserves, it can manage a level of risk by internally borrowing from its earmarked reserves and, in a worst case scenario, can utilise its Working Balance in the short term. However, the council's reserves and balances are well below the average for 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.

1.5 As last year, the budget process will not only be aimed at setting the annual budget, as legally required, but will take a longer term view and consider costs and resources over a 4-year planning period. This will be important for a number of reasons including:

- Continuing to demonstrate 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 generate savings, efficiencies or income to be identified and instigated as soon as possible.

1.6 As in previous years, 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. Medium Term Service & Financial Plans (MTSFPs) will therefore be drawn up by the council's service directorates to ensure alignment of service delivery, including capital investment schemes, with budgets and priorities. However, this year, an associated planning document will also be drawn up alongside the budget in the form of a 'Business Framework' which will further help to frame the context for service delivery including determining core service requirements.

2 RECOMMENDATIONS:

The Policy & Resources Committee is recommended to:

2.1 Note the potential funding and net expenditure projections for 2023/24, based on the three planning scenarios identified in the report.

2.2 Note the Medium Term financial projections for 2023/24 to 2026/27 and the predicted budget gaps based on a 'midpoint' planning scenario.

2.3 Agree that officers should draw up 4-year Medium-Term Service and Financial Plans (MTSFPs) and strategies, including budget proposals to manage the identified budget shortfall in 2023/24, and report back with draft budget proposals to the December Policy & Resources Committee.

3 MEDIUM TERM SERVICE & FINANCIAL PLANNING

Local Financial Planning Context

The Covid-19 pandemic gave rise to significant financial impacts on the economy, locally affecting the council's fees & charges incomes, commercial rent incomes, and also its taxation revenues, for example, through a slowdown of housing developments and higher Council Tax Reduction claimant numbers. There is evidence of some recovery but it is far from complete and, for example, Council Tax Reduction claimant numbers remain well above pre-pandemic levels while incomes such as commercial rents and planning fees remain suppressed. Whilst the government's emergency funding largely covered the financial impacts of Covid-19 in 2020/21 and 2021/22, there is no further funding in 2022/23 and it remains to be seen if its ongoing effects will continue to place financial pressures on the local authority.

3.1 Since setting the council's 2022/23 budget, inflationary pressures, which had started to increase, have now increased dramatically and are expected to reach as high as 10% to 11% by autumn/winter before beginning to recede. This is now the greatest concern financially because it is not only driving higher costs across all areas but, as noted above, it is also giving rise to a cost of living crisis which will have the twofold effect of placing higher demands on council services and local welfare support.

3.2 As in previous years, local authorities continue to have to set financial plans without any firm information about future funding and with a number of potential uncertainties. 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, multi-year Spending Review (SR2021) last year but followed this up with a short-term, one-year Local Government Financial Settlement (the third in a row) providing no certainty over funding for 2023/24 and beyond.

ii) **Setting financial limits annually:** Similarly, the government continues to make decisions on an annual basis concerning key financial parameters including whether or not additional Council Tax precepts will be allowable, and annually determining the level of Council Tax increase allowable without the need for a local referendum.

iii) **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.

iv) **Financial reforms:** The recent Social Care Reforms are supported by a 3-year government funding package but it is unknown whether or not the funding will be sufficient, however, most proponents, including the Local Government Association, believe it will cause additional financial pressures. There are also other potential financial reforms including the Fair Funding Review and Business Rates changes which are still awaiting clearance, and the Revaluation of Business Rates for 2023 could also have a significant impact. In relation to Fair Funding, the government converted part of local authorities' 2022/23 Revenue Support Grant into a one-off 'Services Grant' in lieu of the potential re-distributional impacts of the Fair Funding Review.

All of this makes financial planning very challenging and perilous at a time when local authority budgets are under growing and sustained pressure.

3.3 As a result, the budget setting process needs to allow flexibility to manage any adverse fluctuation in the level of estimated costs, resources or funding, particularly in the current situation where the ongoing financial effects of the pandemic, high levels of inflation, and the consequences of the cost of living crisis are hard to predict with accuracy. This necessarily requires a prudent approach in order to:

(i) Manage risks effectively and maintain financial resilience and sustainability over the medium term, and;

(ii) avoid exhausting the authority's reserves and balances (one-off resources) without any plan to replenish them.

3.4 This report includes an 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 will further exacerbate pressures in 2023/24, and possibly beyond, depending on the effectiveness of monetary policy and global economic factors.

3.5 Financial scenario planning has therefore become increasingly important over recent years due to the continuing uncertainties over the local government financing and funding regime, and increased levels of risk in forecasting costs and income. Managing these risks is critically important because, for example, not planning for a less optimistic financial position could result in the council being unable to set a balanced budget, even after taking into account reserves and balances. As seen nationally, losing grip of the 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 including expectation of a statutory Section 114 report being issued by the Chief Finance Officer (CFO).

- 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 needs to sell capital assets and use capital receipts 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. 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.

3.6 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 arrangements was accordingly strengthened in 2021.

Reserves & Balances

3.7 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;
- Useable Earmarked Reserves £17m – Earmarked reserves are held in lieu of an approved scheme or expense which will normally 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. Earmarked reserves can be 'internally borrowed' from where they are cash-backed i.e. useable, but they must be replenished in time for when they are required to meet their intended purpose. Reserves are generally reducing year-on-year as the authority has not been in a position to make planned additions to reserves for many years.

3.8 A more detailed analysis of the council's reserves and balances as at 31 March 2022 is provided in the Targeted Budget Management (TBM) Provisional Outturn report also on this committee agenda.

2023/24 Budget Planning Scenarios

3.9 Due to the national and local economic uncertainties and the potential impact on finances, three potential cost, income and funding scenarios are considered for 2023/24 to illustrate a potential range of impacts. The scenarios considered are described as follows:

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Table: Planning Scenarios 2023/24

Cost and Income Scenarios	**Scenario Description/Assumption**
Worst Case	Reflecting a significant increase in Adults and Children’s Social care provider costs driven by high inflation affecting wages, energy and other provider costs. Similarly, full provision for inflation on contracts, in particular PFI contracts which are linked to higher RPI-X increases. Provision for increases in energy costs following the ending of fixed contract rates. Higher provision for demographic demand pressures across Children’s Social Care and Homelessness reflecting cost of living impacts and current trends. Fees & Charges such as property rents or planning fees remain suppressed in line with the slow economic recovery. Pay negotiations for staff result in higher pay awards due to high inflation.
Midpoint Case	As above but assumes that not all inflationary pressures are passed on by social care providers or other suppliers and contractors. Demographic increases in demand for demand-led services such as children’s social care, adult social care and homelessness are moderated in line with longer term trends to smooth out short term factors (e.g. the pandemic and/or cost of living). Pay awards assumed at a slightly lower level e.g. which may be possible/accepted if a multi-year award is negotiated.
Best Case	Social care providers and other suppliers and contractors take a long term view of inflation, which the Bank of England expects to reduce to 2% within two years as monetary policy takes effect, and do not pass on the full short-term inflationary impacts. Demographic demand pressures assume higher levels of attrition and higher levels of ‘move-on’ to lower cost care and homelessness settings on the assumption that current factors (e.g. the pandemic and cost of living) fall away more quickly than anticipated. Pay negotiations result in a lower increase in pay costs e.g. a longer term view of inflation is recognised and accommodated in negotiations.
Grant Funding / taxation Scenarios	**Assumptions**
Worst	An assumed minimum level of increased funding from government to cover increased general and social care costs of £2.5m (£0.5 billion nationally). This could be direct funding or via additional precepts, etc. Business rates statutory RPI increase is assumed at 9%, which may be capped by government but the assumption is that councils will be funded through S31 grant instead. Council tax base assumptions remain as per the current predictions in all scenarios due to an already optimistic view of

	Council Tax Reduction claimant numbers returning to pre-pandemic levels.
Midpoint	Government gives greater recognition of the combined effect of high inflation, a suppressed economy, and the emerging increases in demand caused by the cost of living crisis, providing additional grant funding support to local government at £5.6m (£1.1billion nationally). This could include both direct funding and/or additional precepts, etc.
Best	Government gives even greater recognition of the combined effect of high inflation, a suppressed economy, and the emerging increases in demand caused by the cost of living crisis and addresses the shortfall in the expected costs of social care reforms, providing additional grant funding support to local government at £8.2m (£1.65 billion nationally). This could include both direct funding and/or additional precepts, etc.

3.10 There will be variants of these scenarios in between but they serve to illustrate the expected range of possible outcomes from worst to best case for the primary elements of the council's budget and resources. Financially, the very best case scenario for the council is likely to be one where the following all come together:

- Central government gives significant recognition to the additional inflationary pressures facing councils, particularly in relation to social care provision, and provides substantial funding support and/or allows additional Council Tax precepting;
- The National Joint Council (NJC) achieves an affordable pay award for local government which 'smooths out' immediate inflationary pressures, for example, through negotiation of a multi-year award;
- Local economic recovery through 2022/23 gathers pace from the summer onward meaning that fees, charges and property rents recover, Business Rates remain buoyant, and that Council Tax Reduction claimant numbers return to pre-pandemic levels quicker than expected;
- The government's support to households for the cost of living crisis (mainly for energy bills) has significant impact and helps to mitigate or reduce demands on council services, and;
- Inflation peaks in the autumn and begins to show signs of slowing.

3.11 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 in the short term as a minimum. In this respect, the outcome of the recent bid for Rough Sleeper Initiative round 5 (RSI 5) is expected to be known shortly. This will be a 3-year award, which could provide greater certainty but is expected to taper over the period. Funding at close to current levels will be important in the first instance to provide time for support and move-on strategies to take effect.

Addressing Budget Shortfalls (Gaps)

3.12 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 or gap. In common with many councils, this council has experienced annual budget gaps since 2009/10 as the demand for services has substantially increased while its government grant funding has fallen by over £100 million. A budget gap can be closed by identifying cost savings and efficiencies, generating increased income or funding, developing cost avoidance strategies (e.g. preventative strategies), or by cutting or reducing services provided that statutory minimum requirements can still be met.

3.13 In summary, the broad options or possibilities for closing any projected budget gaps are as follows:

(i) Government may provide a better funding settlement than assumed in any of the scenarios through the Local Government Financial Settlement;

(ii) The council could elect to increase Council Tax above the current ‘excessive council tax increase threshold’ (i.e. above 1.99%). For example, with inflation currently at 9%, an inflationary council tax increase at this level would potentially raise an additional £11.2m. 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. Clinical Commissioning Group (CCG) funding toward social care costs. For example, last year the NHS agreed increased funding for Section 117 Mental Health caseload which is already incorporated in current assumptions. There may be 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 ahead of producing the Draft Budget proposals for December Policy & Resources Committee and again for the final proposals to Policy & Resources Committee and Budget Council in February 2023;

(v) Development of Medium Term Service & 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 could 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.

3.14 Options (i) to (iv) above carry a high level of uncertainty or risk 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.

Medium Term Service & Financial Plans to support the Corporate Plan

3.15 The 2021/22 and 2022/23 General Fund budgets were set in the context of the council’s Corporate Plan ‘A fairer city, a sustainable future’. The 2021/22 budget, approved in February 2021 included approximately £22m investment in support of

Corporate Plan priority areas, including provision for cost and demand increases across key demand-led services such as social care and homelessness. Similarly, the 2022/23 budget approved in February 2022, included over £13m to support priority areas and services. This also included approximately £1m support in 2023/24 relating primarily to capital financing for multi-year carbon neutral investments.

3.16 The major service directorates also developed Budget Strategies for 2021/22 and 2022/23 and these will not only be updated for 2023/24 but will shift focus to the medium term (4 years) to ensure greater alignment of longer term service delivery with the council's resources in the context of a more challenging financial outlook. By developing Medium Term Service & Financial Plans (MTSFPs), services will be able to show the longer term direction of travel of services, set out the approach to the commissioning and delivery of services, and demonstrate how plans support and align with the council's Corporate Plan priorities. This will include proposals for achieving cost savings or efficiencies, increasing income, or developing strategies for managing demand-led budgets to help address predicted future budget gaps.

2023/24 Financial Planning Scenario Projections

3.17 The table below sets out the projected costs, pressures and priority investments under the three scenarios outlined in paragraph 3.9 above.

Table: Investments, Cost Pressures & Tax Base Scenarios 2023/24

Budget Area	**Worst Case**	**Midpoint Case**	**Best Case**
	£m	£m	£m
2022/23 pay award above 2% base provision	3.375	2.700	2.025
2023/24 pay award above 2% base provision	2.700	2.025	1.350
General Fund energy contract inflation	1.100	1.050	1.000
Waste PFI contract inflation	1.500	1.200	1.000
Children's Social Care – provider cost increases	2.400	2.200	2.000
Demographic Pressures - Looked after children and Care Leavers	3.000	2.300	1.500
Adult Social Care (including Learning Disability services) – provider cost increases	8.000	6.500	5.600
Demographic Pressures - Adult Social Services including Learning Disabilities	5.600	5.400	5.300
Temporary Accommodation and Rough Sleepers – cost and demand pressures	2.800	2.400	2.000
Orbis Services - revised cost shares (ACRs)	1.200	1.100	1.000
Housing Benefit Subsidy shortfall	0.500	0.400	0.300
All other pressures across council services	4.530	3.430	3.030
All other budget changes and commitments	1.695	1.695	1.695
Total Cost Pressures and Investments	**38.400**	**32.400**	**27.800**

3.18 The scenarios above indicate that cost pressures driven by inflation, demographic change and other demands together with unavoidable commitments (e.g. capital financing commitments) are expected to be in the range of £38.400m to £27.800m. These scenarios are as per the assumptions described in paragraph 3.9 and include flexing the pay award assumption between 3.5% and 4.5% (i.e.

1.5% to 2.5% more than the base provision). Similarly, social care provider inflation is modelled between 6% and 10% (compared to the base provision of 2%). Other cost estimates are based on expected autumn inflation rates (e.g. PFI and energy costs). Orbis revised cost shares are now known following the removal of some services from the partnership, while the Housing Benefit subsidy pressure relates to a known issue on Regulation 13 benefits where the council receives less than 100% subsidy. The estimate for 'All other pressures across council services' includes a provision for exceptional inflationary impacts as well as known or unavoidable commitments across services.

3.19 Similarly, potential funding/taxation scenarios are given below based on assumptions described in paragraph 3.9 above. A best case scenario would see the council receive £14.880m more than already assumed in the Medium Term Financial Strategy.

Table: Funding Scenarios 2023/24

Funding Scenarios	Worst Case	Midpoint Case	Best Case
	£m	£m	£m
Additional government funding	-2.500	-4.000	-5.000
Business rates increase above 2% base	-5.040	-5.760	-6.480
Business rates growth change from 1.7%	0.350	-	-0.100
Additional Council Tax increase (base 1.99%)	-	-1.650	-1.650
Additional 1% ASC precept	-	-	-1.650
Total	**-7.190**	**-11.410**	**14.880**

3.20 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 of the scale.

Table: Range of Potential Budget Gaps 2023/24

Cost & Income Pressures Scenario:	Worst	Midpoint	Best
Aligned with:	£m	£m	£m
Worst Funding/Taxation Levels	31.210	25.210	20.610
Midpoint Funding/Taxation Levels	26.990	20.990	16.390
Best Funding/Taxation Levels	23.520	17.520	12.920

3.21 The table above shows the ongoing 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 the speed of economic recovery, to government grant funding levels. The table indicates a range of potential budget gaps in 2023/24 from £31.210m at worst down to £12.920m at best. This is a considerably higher range than estimated last year, primarily reflecting significantly higher inflationary pressures alongside a significant demographic increase in relation to Care Leavers and transitions (from children's services) in Adult Learning Disability. However, it must be remembered that all estimates at this very early stage of the process are subject to change and will be reviewed and updated throughout the budget process. The position also assumes that any one-off pressures, for example, those relating to Tree Management (Ash/Elm dieback) can be met from one-off resources for 2023/24 and are not included here.

3.22 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 would normally represent a pragmatic position to adopt for planning purposes at this point of the process, recognising that it takes many months to develop robust MTSFPs, including the necessary savings proposals, and therefore officers need to be provided with a working assumption now in order to start the process. However, it is recognised that the council has experienced many, many years of needing to generate savings through cost reductions or generating income in order to address budget gaps and that, as this has become progressively more challenging, a slightly different approach is warranted.

3.23 First, a longer term approach is needed to undertake more fundamental changes to services and/or implement more complex proposals such as reducing occupancy of administrative buildings or introducing new initiatives, such as congestion charging or clean air zone charges. Complex changes may mean that savings or cost reductions are not achieved until later in the 4-year medium term period and this may need to be recognised in the profiling of savings targets. Second, issuing a requirement to develop a very large savings programme in 2023/24 is not a realistic option given the comments in paragraph 3.22 above. A more realistic approach would be to request proposals to meet a Best Case budget gap in 2023/24 and then develop options over the 4-year period for addressing the cumulative 4-year budget gap. This would require some use of reserves in the short term to allow the position to be financially smoothed over the whole period.

3.24 However, adopting this approach carries risks, particularly if longer term savings proposals fail to materialise or achieve the predicted level of savings. Effectively, the council would be storing up a growing recurrent budget deficit which may eventually outstrip available cash reserves. This would put the authority in the position of not being able to achieve a balanced budget and could result in a Section 114 report (a stop on expenditure and contracts) and/or government intervention. To avoid this, it is therefore recommended that each service area develops 'backstop' options, up to the Midpoint budget gap, that could be enacted by the council in the following situations:

- A Worst case cost and/or funding situation arises over the autumn/winter that substantially increases (or hardens) the budget gap;
- There are insufficient reserves to achieve financial smoothing over the medium term compared to the value or profile of savings put forward in MTSFPs for the earlier years;
- Not all services are able to identify achievable savings in 2023/24 to meet the minimum requirement (i.e. the Best Case target).

3.25 The council's Executive Leadership Team (ELT) will determine a reasonable allocation of savings targets for planning purposes, which in the past has usually been based on a ‘Sense of Scale’ methodology which allocates indicative savings targets according to the relative size of the combined Gross and Net budgets of each major service area. This methodology recognises that larger services (i.e. those with higher gross budgets) have greater potential scope for savings as they spend more, either on in-house services or via procured or commissioned services. However, services with high income sources (and low net budgets) have a different opportunity to generate savings, for example, by increasing their incomes from fees & charges. One issue with this methodology is that the higher spending areas will generally attract the higher savings targets but these tend to be the large demand-led areas such as adult and children’s social care. However, excluding these services from any requirement to find efficiencies or economies would dramatically skew savings requirements across areas such as Housing, Transport and City Environmental Services and would not be achievable.

Medium Term Financial Projections 2023/24 to 2026/27

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

- Midpoint scenario assumptions are used for pressures and funding;
- 1.99% Council Tax increases;
- 1.00% Adult Social Care precepts in 2023/24 and 2024/25;
- (Average) Pay awards of 3.5%, 2%, 2% and 2% respectively;
- 3% income target uplifts;
- Average 3% social care third party payment increases from 2024/25 onward;
- 1.00% to 3.00% non-pay budget cash limits from 2024/25 onwards;
- 2.00% assumed inflation rate for Business Rate uplifts from 2024/25 onward;

Table: Indicative Medium Term Financial Projections (at ‘Midpoint’)

Summary Projections and Budget Gaps	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	£m	£m	£m
Commitments (from previous decisions)	4.455	6.458	0.785	-0.609
Net Inflation (on Pay, Prices, Income, Pensions)	20.283	7.806	7.307	6.524
Subtotal	**24.738**	**14.264**	**8.092**	**5.915**
Net Investment in priority/demand-led services	15.030	8.750	8.000	8.000
New grant funding assumed	-4.000	-2.000	-1.500	-1.500
Projected Net Tax Base changes	-14.778	-11.866	-7.104	-7.297
Predicted Budget Gaps	**20.990**	**9.148**	**7.488**	**5.118**

3.27 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 pay or general inflation;

- More or less favourable government grant settlements;
- Potential changes to the ‘excessive council tax’ capping rules and/or precepting;
- 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.

3.28 Based on the analysis above, which includes many unknowns and broad assumptions, it is recommended to instruct the Executive Leadership Team (ELT) to develop options to address budget gaps over the medium term period 2023/24 to 2026/27 based on the combined Midpoint cost and funding scenario for all years. This would mean addressing a combined budget gap (i.e. savings requirement) of £42.744m over the 4-year period. This can include an element of financial smoothing (i.e. use of reserves) provided balance can be achieved, i.e. the combined gaps are addressed, over the 4-year period.

3.29 The Committee will note that the projected budget gap in 2023/24 and the combined gap over the 4-year period are 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.

3.30 In the context of this financial challenge, officers will develop a new ‘Business Framework’ to accompany the development of Medium Term Service & Financial Plans which will attempt to define core service requirements and provide a framework for the delivery of services, setting out key strategies and principles as follows:

- Workforce Strategy including the council’s People Promise
- Digital Strategy for increasing on-line service delivery and accessibility
- Accommodation and Ways of Working changes (‘Workstyles’)
- Financial Resources (Capital and Revenue)
- Customer Service Strategy and Standards (‘One Council’ approach)
- Governance and Compliance requirements.

The Business Framework will help the council to define the resources that it will need to deliver core services to agreed standards and will therefore also indicate where additional funding or choices would need to be made if resources are oversubscribed.

4 CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME

General Fund

5 Year Capital Investment Programme

4.1 The current Capital Strategy was approved at Budget Council in February 2022 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:

- 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 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, 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 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 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 and so needs reviewing. 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 is kept under review as budget plans develop and spend-to-save opportunities and investment requirements emerge in more detail.

Table: Modernisation Fund (Indicative Profile)					
Programme Area	***2020/21***	**2021/22**	**2022/23**	**2023/24**	**Total**
	£m	£m	£m	£m	**£m**
Invest to Save (4-Year Plans)	*0.650*	0.550	0.450	0.350	**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 <u>Customer Digital:</u> 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. The council is now being supported by consultants, 31Ten, to develop its longer term IT & Digital strategy to ensure it is able to make well-informed investment decisions.

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 over time as management and administrative savings have reduced services’ staffing capacity to support improvement programmes directly.

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, 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 (CMDB) chaired by the Chief Executive. The use of the resources is focused on helping 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 potential severance costs and potential pension strain costs.

4.12 The Modernisation Fund is currently managed by the Corporate Modernisation Delivery Board (CMDB) 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 above officer delegations. Decisions leading to investment in capital assets are also reported to Policy & Resources Committee as per Financial Regulations, either as a separate report or through the capital appendices of Targeted Budget Management (TBM) reports.

HRA Capital Programme

4.13 The capital plan for the HRA is split into two main areas in investment, this being in existing stock and in new housing supply. Investment in existing stock is mainly funded from direct revenue funding from tenants’ rents (and associated rent rebates). Whilst investment in new supply is mainly funded from retained capital receipts including Right to Buy sales, grant funding and borrowing.

4.14 The capital investment programme for 2021/22 to 2023/24 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. It will also be important to determine the investment needed to fulfil the health and safety requirements as a result of Government safety guidelines in light of the Grenfell Tower fire and assess the investment needed in carbon reduction initiatives to support the city's commitment of becoming carbon neutral by 2030.

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 2022/23 to deliver 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.

5 TIMETABLE

5.1 The suggested timetable for developing and approving the 2023/24 budget is given below. However, the timetable may need to flex depending on the timing of government announcements. 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
7 July 2022	P&R Committee	TBM Provisional Outturn 2021/22 General Fund Budget Planning & Resource Update 2023/24 (including financial scenarios)
29 July 2022	P&R Committee	2022/23 TBM Month 2 (May)
July – Oct	ELT	Develops Medium Term Service & Financial Plans (MTSFPs) including budget proposals to address budget gaps for 2023/24 to 2026/27 alongside developing Equality Impact Assessments
6 Oct 2022	P&R Committee	TBM month 5 (August)
Oct/Nov	Government	Likely Autumn Statement announcement
1 Dec 2022	P&R	Draft General Fund Budget 2023/24 including draft MTSFPs, budget proposals and Equality Impact Assessments. TBM month 7 (October) Council Tax Reduction Scheme Review 2023/24
December	Government	Provisional Local Government Finance Settlement
December	ELT	Consultation process begins on draft 2023/24 budget proposals including staff, unions, partners and residents
19 Jan 2023	P&R	Council Tax Base report Business Rates tax base report Recommends the Council Tax Reduction Scheme 2023/24
February	Government	Final Local Government Financial Settlement

Date	Who	What
9 Feb 2023	P&R	2023/24 General Fund and HRA Revenue & Capital Budget reports including the Capital and Treasury Management strategies. TBM month 9 (December).
23 Feb 2023	Budget Council	2023/24 General Fund and HRA Revenue & Capital Budget reports 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 through amendments, to Budget Council on 23 February 2023. 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 2023/24 to 2026/27. It also provides an outline timetable for considering options to develop the 2023/24 annual budget.

9 Financial Implications:

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

Finance Officer Consulted: James Hengeveld Date: 27/6/22

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 Policy & Resources 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: 28/06/22

11 Equalities Implications:

11.1 For any significant budget changes proposed in 2023/24 or later, 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.

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 pandemic, inflationary pressures, 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.

SUPPORTING DOCUMENTATION

Appendices:

1. Medium Term Financial Assumptions and Projections
2. Resources Update

Documents in Members' Rooms

None

Background Documents

None