

<b>Committee(s):</b> Policy Resources and Economic Development Committee	<b>Date:</b> 30 June 2021
<b>Subject:</b> Budget Guidelines & Financial Forecasts 2022/23	<b>Wards Affected:</b>
<b>Report of:</b> Jacqueline Vanmellaerts Corporate Director (Finance & Resources)	<b>Public</b>
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### Summary

The report sets out the proposed budget timetable and guidelines that will be followed to develop the budget for 2022/23 and the financial forecast for 2023/24 to 2025/26.

A 10-year financial forecast is included to assist Members in understanding the longer-term financial trajectory of the Council and to identify actions that can be taken to address the continuing deficit of resources over expenditure. These actions will assist Members in having to take decisions at future committees to address the budget gap.

The 10 year forecast includes various static assumptions and does not currently include the use of earmarked reserves to maintain working balances above the minimum required level.

### Main Report

#### **Introduction and Background**

1. The Medium-Term Financial Strategy approved for 2021/22 set the Council in a strong financial position. However surplus resources begin to reduce by 2023/24.
2. With the impact on the Covid-19 pandemic there is a need to generate efficiencies to meet the increasing budget gaps of service delivery and continue to deliver on the Council's aspirations as outlined in the Corporate Strategy.
3. Local government finance continues to experience external pressure and uncertainties. There continues to be an absence of reliable forecasting data beyond 2021/22 and proposed changes to the way government funds local government (covered by the Fair Funding Review) have been delayed. In addition, there has been restrictions associated with borrowing from the public works loan board PWLB, and a consultation begun in February 2021 regarding on how the New Homes Bonus would change.
4. This report sets out the current assumptions assumed within the financial forecasting for the Councils Budget setting Cycle. Appendix A provides a 10-year financial forecast based on current assumptions to date. Alongside the budget

guidelines as outlined in Appendix B to be issued to officers. These guidelines will be used to prepare draft budgets that will be presented to committee in February 2022 for approval to Council.

## **Issue, Options and Analysis of Options**

### **COVID-19**

5. The immediate financial impact of the pandemic to the Council for 2020/21 was a net cost £1.511 million. Government provided £2.088 million of grant funding specifically associated with the loss of income and cost incurred for COVID legislation.
6. It is certain that there will be lasting financial effects to the Council's financial position. The revised 10-year MTFS forecast included in Appendix A reflects current assumptions in respect of COVID-19.
7. For Brentwood, we are assuming a decrease in trade waste income, season ticket income, car parking income and licensing income. The situation currently is extremely fluid and is being monitored on an ongoing basis.
8. The Council was able to set aside funds during 2020/21 in an earmark reserve it is expected that these funds to be fully utilised during 2021/22. Current assumptions are that the Government income compensation scheme will only last until June 2021 and no further funding is expected from the Government.

### **Brentwood Centre**

9. On the 6 November 2020 Brentwood Leisure Trust entered administration resulting in the Council having to provide the in-borough leisure facilities.
10. Since taking the centre back with the Council's control, the centre has been unable to open during two lockdowns due to COVID-19. On the 12th April 2021 the Centre was able to open and operate based on the Government's roadmap. Since 17<sup>th</sup> May the Centre has been operating fully as a leisure centre.
11. Current assumptions based on data to date is that the centre operates at a £500k deficit. For the purpose of the 10-year forecast we have assumed that the Council continues to operate the centre at this loss. However, officers are investigating alternative operating models and considering the strategic view of the Centre in its entirety. As this project workstream develops, the financial assumptions and projections will be refined and updated. However, it is prudent to assume the do-nothing approach until further data is obtained.

## **Interest Payable**

12. At the time of setting the MTFS current PWLB interest rates were assumed.

2021/22	2022/23	2023/24
1.6%	1.7%	1.7%

13. In response to the vaccination roll-out program, the market reacted and PWLB's rates have increased. For budget purposes the interest payable budget has been recalculated using the following rates as guided by our Treasury Management Advisors. This adds additional pressure to the MTFS for current borrowing proposals.

2021/22	2022/23	2023/24+
1.9%	2.2%	2.5%

## **Saving Initiatives**

14. The Savings initiatives built within the MTFS are set out in the table below. The current MTFS forecast assumes that these will all be achieved. However, they are RAG rated to highlight the initiatives that are at risk of not being achieved. These initiatives are monitored through the Council's budget monitoring process. Any of these initiatives that were not accomplished would add further pressure to the MTFS.

Proposed Saving Targets	2021/22 £'000	2022/23 £'000	2023/24 £'000
Corporate Vacancy Factor/Organisation Review*	(426)	(435)	(445)
Capitalisation Staff Costs *	(50)	(50)	(50)
Digital Efficiencies*	(20)	(20)	(20)
Waste Service Review*	(180)	(180)	(180)
Total Efficiency Targets	(676)	(685)	(695)
Leisure Strategy Income*	Nil	(150)	(300)
Investment Income*	(1,660)	(1,660)	(1,660)
Total Income Generation Targets	(1,660)	(1,810)	(1,960)
Strategic Employment Acquisition	(1,351)	(968)	(951)
Housing Delivery Model	(759)	(1,293)	(1,240)
Total Asset Delivery	(2,110)	(2,261)	(2,191)
Total Saving Targets	(4,446)	(4,756)	(4,846)

\*Previously in part incorporated within the 2021/22 base budget

15. The proposed Savings Targets highlighted amber is due to the projects associated in delivering these savings are not yet completed therefore, there is a higher risk that the target may not be achieved.

### **Vacancy Factor**

16. A vacancy factor of 4% is applied to employee costs. This encourages management of appointments to vacant positions to generate efficiencies. It is recognised that not every budget manager will be able to generate these savings. Senior managers are expected to work collectively to achieve this efficiency across the organisation as a whole.

### **Pay Award**

17. The MTFS continues to assume a 2% pay award per annum. For information purposes the below table tracks the pay award awarded by the Council compared to the NJC pay awards.

<b>Year</b>	<b>Brentwood Pay Award</b>	<b>NJC Pay award</b>	<b>Difference</b>
2015/16	2.2%	2.2%	0%
2016/17	0%	1%	1%
2017/18	0%	1%	1%
2018/19	1%	2%	1%
2019/20	2%	2%	0%
2020/21	2%	2.75%	0.75%
2021/22	2%*	TBC	

\* Subject to approval

18. There is a fine balance of managing costs of the pay award and ensuring that the Council's pay remains competitive with neighbouring authorities enabling the ability to retain staff and recruit individuals to the right level in the organisation.

### **Inflation and Fees & Charges**

19. Where there are contractual obligations that costs are reviewed in line with specific increases these are reflected within the budget within inflation. Inflation has been applied based on the Treasury's forecast as below.

2022/23	2023/24	2024/25	2025/26+
1.8%	1.9%	1.9%	2.0%

20. Fees and charges are expected to rise in line with inflation. Officers are expected to ensure that fees and charges are on a cost recovery basis unless determined by statute.

### **Council Tax**

21. The revised MTFS will assume a Council Tax Increase from 2022/23 or 2% per annum. It is then members decision whether to change this assumption when setting the budget.

22. The Council tax base will grow by 0.5% per annum.

### **General Fund 10-year Forecast**

23. Attached in Appendix A is a 10-year financial forecast for the General Fund that accounts for all the assumptions outlined to arrive at the figures presented.

24. In addition to the assumptions outlined, the figures assume the level of government-controlled funding sources will continue as per recent years.

25. Current forecasts highlight the Council is now facing setting an unbalanced budget, with minimum reserves depleted by 2022/23 compared to the first draft of reserve depleting below minimum level which is £2.5 million by 2028/29. However, adjustments made to the forecasts also assumes no additional drawdown on existing earmarked reserves.

26. Any one of these assumptions may prove to be incorrect but they provide a basis on which to plan for the future in a very uncertain climate. The Council needs to continue to transform the way that it delivers services for the foreseeable future to ensure financial sustainability.

27. The Council has an ambitious significant investment and regeneration aspiration across the borough. To deliver the planned pipeline of projects, the Council will be

required to borrow to finance these projects. Therefore, the Council needs to ensure that its revenue budget can afford the capital financing costs associated to these projects.

### **Addressing the Budget Gap**

28. The strategy for managing the future budget gaps has to be developed during the budget setting process. It is expected that it will include elements such as:

- Service redesign and delivery of service strategies
- Maximising income generating opportunities.
- Shared services with other local authorities.
- Ensuring full cost recovery for services.
- Reviewing how services are delivered to reduce costs.
- Reduce off payroll salary costs where appropriate.
- Reviewing and rationalising Council Assets
- Generating new ideas for delivering efficiencies
- Reviewing and considering the activity of Seven Arches Investment Limited and the Joint Venture Brentwood Development Partnership.

29. While the Council has an appropriate level of reserves that could be used to reducing any gaps, they can only be utilised once and do not address the underlying deficit within the budget for operating the services.

### **Housing Revenue account**

30. The budget guidelines outlined in Appendix B are applicable to the HRA. A 30-year forecast for the HRA is produced annually. The current version was presented to Ordinary Council as part of the Budget.

### **Consultation**

31. The assumptions and 10-year Forecast has been presented to the Senior Leadership Team.

### **References to Corporate Plan**

32. The budget underpins the ability to be able to deliver the aspirations outline within the Corporate Strategy by managing our finances and contracts robustly to ensure best value for money.

## **Implications**

### **Financial Implications**

**Name/Title: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources)**  
**Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk**

33. Financial implications have been included within the main body of the report.

### **Legal Implications**

**Name & Title: Amanda Julian, Corporate Director (Law & Governance) and Monitoring Officer**  
**Tel & Email: 01277 3127500/amanda.julian@brentwood.gov.uk**

34. There are no direct legal implications arising from this report.

### **Economic Implications**

**Name/Title: Phil Drane, Corporate Director (Planning and Economy)**  
**Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk**

35. Growing our economy is a corporate priority. Therefore, everything the Council does contributes or impacts the borough's economy in some way, either directly or indirectly. It is important that the Council maintains a budget that considers such implications. In this case, it is important to look ahead and cast a 10-year financial forecast that includes consideration of the economy over time in line with corporate priorities.

**Other Implications** (where significant) – i.e. Health and Safety, Asset Management, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

36. Risk Management – Failure to ensure that the net expenditure is contained within the approved budget will result in significant deterioration in the Council's overall financial position and fall below minimum level of reserves.

## **Background Papers**

Medium Term Financial Strategy 2021/22

## **Appendices to this report**

Appendix A: 10-Year Financial Forecast  
Appendix B: 2022/23 Budget Setting Guidelines