

<b>Committee(s):</b> Policy Resources and Economic Development Committee	<b>Date:</b> 13 <sup>th</sup> July 2022
<b>Subject:</b> Budget Guidelines & Financial Forecasts 2023/24	<b>Wards Affected:</b>
<b>Report of:</b> Jacqueline Vanmellaerts Corporate Director (Finance & Resources)	<b>Public</b>
<b>Report Author/s:</b> Name: Phoebe Barnes Corporate Finance Manager Telephone: 01277 312500 E-mail: phoebe.barnes@brentwood.gov.uk	<b>For Information</b>

### Summary

The report sets out the proposed budget timetable and guidelines that will be followed to develop the budget for 2023/24 and the financial forecast for 2024/25 to 2026/27.

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 future deficit forecasts..

The 10 year forecast includes various static assumptions and includes the use of earmarked reserves to maintain working balances above the minimum required level until 2030/31.

### Main Report

#### **Introduction and Background**

1. The Medium-Term Financial Strategy (MTFS) approved for 2022/23 outlined the budget deficits facing the council with a do nothing approach.
2. With the financial impact of the Covid-19 pandemic there is a continued need to generate efficiencies to meet the increasing budget deficits of service delivery and continue to deliver on the Council's aspirations as outlined in the Corporate Strategy.
3. Members were sent communication on 20<sup>th</sup> May, (attached in Appendix C) from the Section 151 Officer highlighting the ongoing financial challenges, not only for Brentwood Council's finances but also potential challenges for the Council's residents regarding the year ahead.
4. Local government finance continues to experience external pressures and uncertainties. There continues to be an absence of reliable forecasting data beyond 2022/23 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. Currently the UK economy reacting to external factors impacting on all of society. Currently at the time of writing this report the UK base rate has increased to 1.25%, CPI (Consumer price index) has reached 9.1% and is expected to climb further with added pressures of utility costs set to rise by 40%.

5. This report sets out the current assumptions assumed within the financial forecasting for the Councils Budget setting Cycle for 2023/24. Appendix A provides a 10-year financial forecast based on high level 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 2023 for approval to Ordinary Council.

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

### **COVID-19**

6. There is a lasting financial effect to the Council's financial position that is still to be quantified. The revised 10-year MTFS forecast included in Appendix A reflects current assumptions in respect of COVID-19 as for 2022/23 the income budgets affected by the pandemic were reduced.
7. For Brentwood, we are assuming an approx. decrease of £960k across various income streams such as 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.

### **Interest Payable**

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

2022/23	2023/24	2024/25+
1.9%	2.0%	2.0%

9. In response to the external factors world-wide, rates have increased. For budget purposes the interest payable forecasts have been recalculated using the following rates as guided by our Treasury Management Advisors. This will add additional pressure to the MTFS for current borrowing proposals.

2022/23	2023/24	2024/25+
3.4%	3.0%	3.0%

## **Saving Initiatives**

10. 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.

	2022/23	2023/24	2024/25
<b>Proposed Saving Targets</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Corporate Vacancy Factor	(459)	(470)	(479)
Capitalisation Staff Costs *	(50)	(50)	(50)
Digital Efficiencies*	(30)	(30)	(30)
Vehicle Fleet Maintenance	(135)	(135)	(135)
<b>Total Efficiency Targets</b>	<b>(674)</b>	<b>(685)</b>	<b>(694)</b>
Waste Service Income	(365)	(365)	(365)
Leisure Strategy Income	(175)	(175)	(175)
Service Income Generation	(130)	(135)	(136)
<b>Total Income Generation Targets</b>	<b>(670)</b>	<b>(675)</b>	<b>(676)</b>
<b>Total Saving Targets</b>	<b>(1,344)</b>	<b>(1,360)</b>	<b>(1,370)</b>

\*Previously in part incorporated within the 2022/23 base budget

11. 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**

12. 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.

13. For 2021/22 the vacancy factor was 7.93% for the General Fund and 7.03% within the HRA establishment. Current market conditions are demonstrating the struggle local government is facing in recruiting permanent positions. Options are to leave posts vacant or to use agency cover as an interim. Services will be reviewed and long term vacant posts reviewed to determine, whether they are needed, whether the budget can be utilised elsewhere or if the budget is required to do something different to deliver an improved service.

## **Regional and Local Pay Award**

14. 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.

Year	Brentwood Pay Award	NJC Pay award	Difference
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%	1.75%	(0.25%)
2022/23*	TBC	TBC	TBC

\* Subject to approval; + NJC 2.75% SCP1

15. 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.

16. Although the Council currently sets local pay awards, we have a statutory duty to apply the National Living Wage (NLW) increase to the lower end of our pay scales. Local Pay Commission (LPC) forecasts that the NLW is expected to increase to £10.70 by 2024 (currently £9.50 from April 2022). Therefore, our budgeted future 2% increases already included within the MTFs will not be enough to meet the statutory requirements to reach the predicted levels. The chancellor is expected to announce the 2023/24 NLW in the autumn spending review.

17. Work has commenced on what higher pay awards would look like on the Councils MTFs for 2022/23 if additional pay awards were to be applied in that year only, and the subsequent implications on the future years of 2% increases. The table below is for information and is subject to review and refinement to deliver on an appropriate strategy.

<b>Additional pressure on budget</b>				
	2022/23	2023/24	2024/25	2025/26
Current 2% (Forecast in MTFS)	220,550	229,857	234,454	239,143
Additional 1% (3% total)	335,478	232,156	236,799	241,535
Additional 2% (4% total)	450,407	234,454	239,143	243,926
Additional 3% (5% total)	567,634	236,799	241,535	246,365

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

18. 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.

2023/24	2024/25	2025/26	2026/27+
10.0%	6.0%	2.0%	2.0%

19. Fees and charges are expected to rise in line with inflation. However due to the current cost of living crisis, fees and charges setting for 2023/24 are expected to be reviewed to ensure they are not putting financial burdens on the resident of the Borough whilst balancing the increase cost of delivering the services. Officers are expected to ensure that fees and charges are on a cost recovery basis unless determined by statute.

### **Council Tax**

20. The revised MTFS will assume a Council Tax Increase from 2023/24 or 2% per annum. It is then members decision whether to change this assumption when setting the budget.

21. The Council tax base is assumed will grow by 0.5% per annum, however an annual reconciliation process is carried out and the Council Tax base is realigned to actual levels each year. Ongoing modelling work is currently being carried out by officers in order to take account of future economic changes.

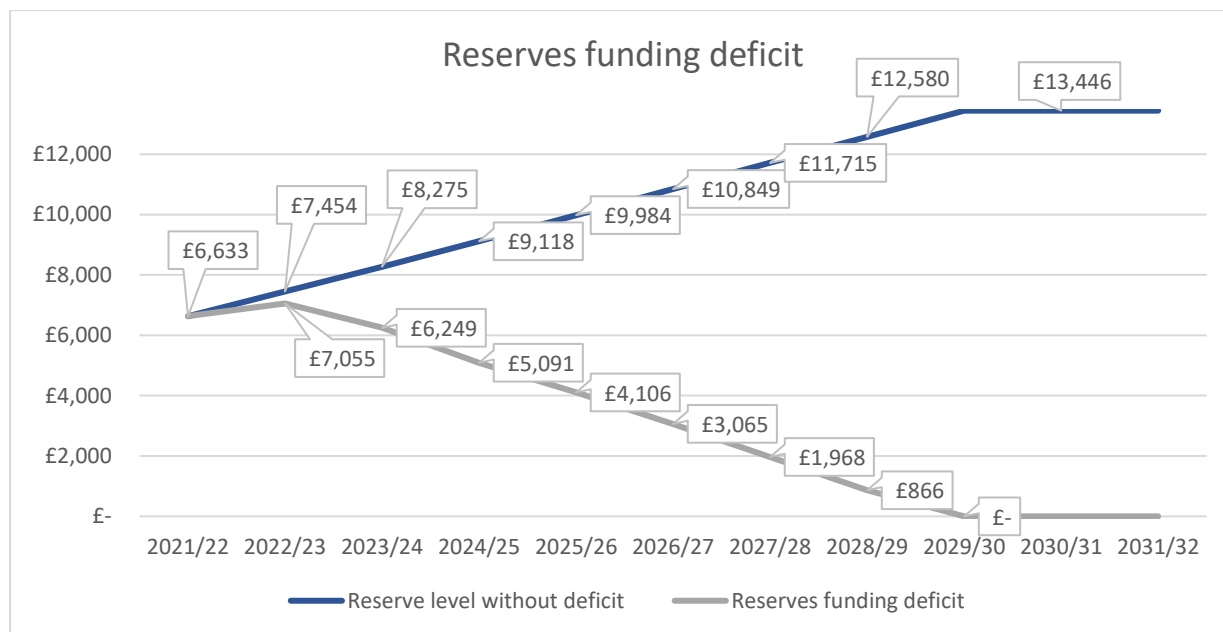
## **General Fund 10-year Forecast**

22. Attached in Appendix A is a high level 10-year financial forecast for the General Fund that accounts for all the assumptions outlined above to arrive at the figures presented.
23. In addition to the assumptions outlined, the figures assume the level of government-controlled funding sources will continue as per recent years.
24. Local Pay & Council Tax increases have been included within the Total General Fund Net Expenditure and Total Funding, while additional forecasted adjustments have been itemised separately.
25. Useable earmarked reserves (Total of Service and Mitigation reserves balances as at March 2022 are £6,633k) have been utilised to mitigate projected future deficits.
26. The table indicates there is a continued commitment within the MTFS to contribute regeneration income to earmarked reserve balances of £878k. However, even with this contribution earmarked reserves will be fully depleted by 2029/30 and working balances will fall below minimum levels by 2030/31.
27. 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 and reduce future projected deficits.
28. 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 whilst managing future projected deficits.
29. The 10 year forecast is a 'do nothing' approach based on the known assumptions to date included within it.

## **Reserves**

30. The graph below shows the utilisation of mitigation and service earmarked reserves balances only and assumes future projected deficits will reduce the balances to zero by 2029/30, if future projected deficits cannot be mitigated.

31. While the graph below highlights the Council has an appropriate level of mitigation and Service Earmarked Reserves that could be used to reduce future projected deficits in the short term, they can only be utilised once and do not address the underlying deficit within the budget for operating the services. However it is expected that reserves will be utilised in the interim until Central Government deliver more certainty on the future of Local Government Finance.



### Addressing the Budget Deficit

32. The strategy for managing the future budget gaps will 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

### Housing Revenue account

33. 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.

34. Officers are currently working on revising the 30 year business plan to take account of the following factors:

- CPI forecasts higher than the current base
- Rent Increase proposals – (not in line with CPI plus 1%)
- Inflation to the Axis contract
- Retro-fitting on existing stock
- Utility Costs

### **Consultation**

35. The assumptions and 10-year Forecast have been presented to the Senior Leadership Team.

### **References to Corporate Plan**

36. 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**

37. 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**

38. 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**

39. 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 – Included within the Strategic Risk Register - 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 2022/23

### **Appendices to this report**

Appendix A: 10-Year Financial Forecast

Appendix B: 2023/24 Budget Setting Guidelines

Appendix C: Memo to Councillors – 20<sup>th</sup> May 2022