

Committee(s): Policy Resources and Economic Development Committee	Date: 23 November 2022
Subject: 2022/23 Budget update and Draft 2023/24 Medium Term Financial Forecast	Wards Affected: All
Report of: Jacqueline Van Mellaerts – Corporate Director (Finance & Resources)	Public
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Summary

The Medium-Term Financial Strategy (MTFS) sets out the key financial management principles and budget assumptions. It is then used as the framework for the detailed budget setting process to ensure that the Council's resources are managed effectively to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.

The current draft forecast as outlined in the report is to aid Members in understanding the basis of what is known now, the financial trajectory of the Council and identifying actions that can be taken to address the continuing deficit of resources over expenditure. These actions may involve Members having to take difficult decisions to address the budget gap.

This report also provides the Policy, Resources & Economic Development Committee with an update to the 2022/23 General Fund Revenue budget, Housing Revenue Account and Capital program as well as the Treasury Management Mid-Year Review 2022/23

Main Report

Introduction and Background

1. On 23 February 2022, the Medium-Term Financial Strategy was approved and the budgets for General Fund, HRA and the Capital Programme were set for 2022/23.
2. On 13 July 2022 at Policy, Resources and Economic Development Committee (PRED), the revised working balance positions were reported following 2021/22 outturn positions, in addition the capital programme was amended for the recommended carried forwards/slippage.
3. At the same committee, members were presented with a report titled Budget Guidelines & Financial Forecasts 2023/24. This report set out the Council's proposed budget timetable and budget guidelines that were to be used in

developing the MTFS for 2023/24. The report detailed current assumptions at that point in time and provided a 10-year financial forecast to aid in presenting the external pressures and uncertainties that Local Government continues to face.

4. On 14 September 2022 members of PRED Committee were presented with a budget update report. The purpose of the report was to set out the forecast revenue and capital budget positions as at period 5 for 2022/23.
5. Local government finance continues to experience external pressures and uncertainties. After riding the uncertainties of the pandemic, the Council now faces further financial challenges as the UK economy battles the cost-of-living crisis. Soaring inflation, energy prices and national living wage pressures have put further financial pressures on the MTFS. The Council still does not anticipate the need to reduce services however redesigning how services are delivered now can alleviate the ongoing financial burden to the future MTFS.
6. The position reported within the report and supported by appendices highlights the challenges in which the Council still faces, if no further action is taken to reduce the forecasted funding gap.

Issue, Options and Analysis of Options

General Fund 2022/23 Outturn

7. When considering future budgets, any known pressures and savings identified in year are reflected. Therefore, the proposed forecast outturn for 2022/23 must be considered alongside the draft budgets for the MTFS.
8. Attached within Appendix A is a revised projected outturn for 2022/23. The current projection assumes a small overspend of £6k and a variance to original budget of £115k, which is an improvement from Septembers committee.
9. Appendix B highlights the subjective variances between the budget and forecast. In summary, although there are high inflationary pressures due to the current economic climate, the Council's vacancy factor on salaries is much higher than anticipated, causing a higher underspend on salary forecasts.
10. The Inflationary increases on fuel and utilities continue to rise but reviewed regularly due to the current economic climate. These pressures are currently in the region of £523k.
11. Following the decision on 2nd November at Ordinary Council to match the national pay award for local employees of £1,925; £331k has been drawn down

from Funding volatility reserve as the forecasted additional impact for 2022/23 across all corporate priority headings. This value represents the actual additional forecasted cost, based on the current payroll, and should not be confused with the impact the pay award will have on the base budget.

12. Employee related expenditure is currently forecasted to underspend by a total of £698k, this is mainly due to various vacancies being held with a number of departments. Vacancies are being held due to difficulty in recruiting as well as holding vacancies whilst services review their establishment and the structures, they need to deliver the services required.
13. If the Council continues to breakeven on the 2022/23 budget, there will be no requirement to drawdown from earmarked reserves the anticipated £122k budgeted funding gap.

General Fund 2023/24 Draft Medium Term Financial Strategy (MTFS)

14. Members will note at the committee on the 13 July, a 10-year forecast was presented. These forecasts have continued to be refined, however based on current assumptions to date forecasts continue to highlight the deficit of resources over expenditure and the pressure the Council still faces, if no further action is taken to reduce the future deficits.
15. Table 1 below summarises the revised projected surplus/deficit of the general fund and the impact on working balances and earmarked reserves. The budget setting process is not yet complete, therefore the report before members is presenting the Draft Medium Term Financial Strategy for 2023/24. The final budget will be presented to the next Committee on 8th February 2023.

Table 1: General Fund MTFFS Forecasts

	2021/22 Actual £'000	2022/23 Projected Outturn £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
Total General Fund Net Expenditure	12,063	9,652	10,812	11,105	11,378
Total Funding	(11,820)	(9,646)	(9,400)	(9,377)	(9,554)
General Fund (Surplus)/Deficit	243	6	1,412	1,728	1,824
General Fund Deficit	-	(6)	(1,412)	(1,728)	(1,825)
Use of Forecasted Earmarked Reserves	-	(4,059)	914	914	914
Total Earmarked Reserves Balance	12,446	8,381	7,883	7,069	6,158
Working Balance b/fwd	3,117	2,874	2,874	2,874	2,874
Working Balance c/fwd	2,874	2,874	2,874	2,874	2,874

16. The table above identifies the revised gap between resources and required expenditure. The 2023/24 and 2024/25 revised forecasts, include the base budget requirements agreed at Ordinary Council 23 February 2022. The position of the reported base budgets have changed, and this report highlights what has changed since the last agreed MTFFS to the most recent known information, which are explained in Table 3 of this report.
17. The key assumptions to arrive at the financial forecasts for 2023/24 -2025/26 are based on the assumptions set out with the Budget Guidelines Appendix reported to committee on 13 July 2022. In addition to these assumptions in year adjustments have been made to ensure budgets fairly reflect the cost of providing the current service to the borough and known pressures and savings.

Reserves and working balances

18. Closing working balances for 2021/22 were reported at £2.874m, which is within the Council's minimum reserve level of £2m, set by the Section 151 Officer. The General Fund balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of working balance should provide reasonable allowance for unquantifiable risks or one-off exceptional items of expenditure that are not covered within existing budgets.

19. While it is deemed the Council has an appropriate level of working balances, the Council can utilise earmarked reserves, to fill any gaps in the short term for delivering efficiencies and one-off items of expenditure, these reserves can only be used until their balance is drawn down.
20. The 2022/23 deficit is current forecasted at £6k, it is anticipated the Council will drawdown any deficit at the end of the year from the funding volatility reserve. Attached in Appendix C highlights the current forecast on the earmarked reserve balances for 2022/23.
21. Table 1 shows the current predicted General Fund Deficits for 2023/24 and future years. It demonstrates utilising earmarked reserves to manage these short-term deficits using the funding volatility reserve and the future balances available. A further review of earmarked reserves will be carried out for the Council's final 2023/24 Budget.
22. The reserves are currently grouped into four types of reserves:
 - a) **Mitigation** – Earmarked specifically to mitigate financial risks to the Council.
 - b) **Service** – Monies set aside for services from existing budgets to be used on specific investments initiatives or projects.
 - c) **Specific** – Monies that the Council has received that have restricted conditions on how the money can be used.
 - d) **COVID-19** – Government Grants earmarked for specific conditions associated with the pandemic. These will be reviewed for the final 2023/24 Budget.

Table 2: Earmarked Reserves Forecasts

Reserve	Opening Balance 2021/22	Forecast Balance 2022/23	Forecast Balance 2023/24	Forecast Balance 2024/25	Forecast Balance 2025/26
	£'000	£'000	£'000	£'000	£'000
Mitigation	4,271	4,750	4,466	3,866	3,169
Service	2,362	2,048	1,846	1,644	1,442
Specific	617	601	589	577	565
COVID-19	5,196	982	982	982	982
Total	12,446	8,381	7,883	7,069	6,158

23. On the 2 November 2022, The Council approved to redevelop The Baytree shopping centre. The impact of the Capital Budget, General Fund and Earmarked Reserves have not yet been adjusted within the Draft MTFS. The final impact of this decision will be included within the Final budget 2023/24.

General Fund Movement

24. The changes made to the base budget can be categorised as follows in line with the MTFS:
- a) **Realigning** - Services budgets realigned to ensure the base budget correctly reflects the current service provision.
 - b) **Inflation** - Contractual obligations for 2023/24 and futures years are regularly being reviewed in line with current inflation.
 - c) **Establishment** – Following Ordinary Council on 2nd November. The agreed pay award has been built into future years, as and a pay award assumption of 2% per annum; plus incremental drift.
 - d) **Vacancy Factor** – 4% vacancy factor is assumed and recalculated based on revised establishment budget. recruitment of vacant posts causes a natural saving on employee costs. This is calculated at 4% and is held centrally and allocated in year as and when vacancy savings materialise.
 - e) **Income** - Separate to income generated through fees and charges.
 - f) **Fees & Charges** - increases, associated with increasing fees & charges by inflationary costs and revisiting demand, ensuring cost recovery basis; fees and charges will be updated following changes to appropriate committees in December.
 - g) **Funding** - To remain as forecast in the 2022/23 MTFS which is detailed within Table 3 within this report.
 - h) **Council Tax** – This is assumed to increase at 2% per annum. In addition the Council Tax base has grown from 33,171.90 to 33,870.80. This growth is attributable to the permitted development sites that have come onto the tax base. More homes grows the chargeable council tax base, generating a higher surplus than originally forecast.
 - i) **Growth/Pressures** – current identified pressures.
 - j) **Savings** – proposed initiatives from services.
 - k) **Recharges to the HRA** - are revisited on an annual basis and the allocation is revised on the proposed budget.
 - l) **Earmarked Reserves** – Contributions to/from Earmarked Reserves
 - m) **Non Service** – Predominantly Capital Financing, Interest on borrowing for funding the capital program are reviewed annually and updated on revised business and project plans. Minimum Revenue Provision is recalculated based on the policy as set out within the Capital and Investment Strategy.

25. Table 3 quantifies the net impact of changes captured and applied to the Base budget for 2023/24-2025/26. Appendix C details the changes behind the summary provided in Table 3.

Table 3: MTFs Adjustments

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Original Funding Gap	1,404	1,826	1,915
Add:			
Realigning	(61)	(252)	(252)
Inflation	711	710	740
Salaries	491	639	639
Recharges to HRA	47	76	76
Growth/Pressures	361	381	361
Savings	(299)	(397)	(397)
Earmarked Reserves	0	(23)	(23)
Non Service	(939)	(1,121)	(1,121)
Funding Inc Collection Fund	(195)	0	0
Council Tax	(108)	(111)	(114)
Revised Funding Gap	1,412	1,728	1,824

26. Included within the saving line for 2023/24 is £192k for the Joint Strategic Partnership with Rochford, this increases to £298k from 2024/25. This saving is the expected impact following the Tier 1-3 restructure. Further savings are expected to be made following the individual service reviews and will be reported as part of the final 2023/24 budget.

Government Funding

27. Detailed information on funding will not be available until early December. And at the time of writing the report the Autumn Budget Statement is scheduled for 17th November 2022. It is expected that this statement will come with tax rises and spending cuts. It is uncertain what this will mean for local government funding the current assumption is to assume no additional growth.

28. The following assumptions have been made:

- a) Negative RSG will continue to be removed

- b) Minimum Funding Guarantee – Assumption Government will continue to grant fund authorities ensuring their core spending power remains the same.
- c) Council Tax – Referendum thresholds remain at 2% per year. MTFS currently assumes Council Tax will increase by 2% per annum.
- d) New Homes Bonus – The last 2 years this has been an annual allocation it is currently assumed new homes bonus will not be granted. No further information has been received following the consultation on new Home bonus in 2021.
- e) Business Rates Retention – Forecasted to remain at safety net. The Council will not be part of the Essex Pool for 2023/24, and instead will be topped up to safety net by Government.

29. Current funding assumptions are therefore unchanged and continue to align to the Council’s MTFS for 2022/23. Table 3 highlights the expected government funding.

Table 4: Government Funding Expected

	2018/19 Actual £'000	2019/20 Actual £'000	2020/21 Actual £'000	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
News Homes Bonus	410	678	688	529	713	Nil	Nil	Nil
Grants*	Nil	Nil	Nil	154	188	188	188	188
Covid-19 Funding	Nil	Nil	982	309	Nil	Nil	Nil	Nil
Covid Compensation Grant	Nil	Nil	1,105	254	Nil	Nil	Nil	Nil
Total	410	678	2,775	1,246	901	188	188	188
Business Rates Retention	2,220	1,800	1,800	1,634	1,535	1,535	1,535	1,535
Business Rates Levy Account	Nil	25	Nil	Nil	Nil	Nil	Nil	Nil
Total	2,630	2,503	4,575	2,880	2,436	1,723	1,723	1,723

*Includes Lower tier Service Grant & Service Grant reported in the 2021 Local Government Finance Settlement

Addressing the Funding Gap

30. The strategy for managing the future budget gaps must be developed during the budget setting process. Officers are currently looking at:
- a) Service redesign and delivery of service strategies
 - b) Maximising income generating opportunities
 - c) Ensuring full cost recovery for services
 - d) Reviewing how services are delivered to reduce costs
 - e) Reviewing and rationalising Council Assets
 - f) Generating innovative ideas for delivering efficiencies
 - g) Reviewing and considering the activity of Seven Arches Investment Limited and the Joint Venture Brentwood Development Partnership
 - h) Looking at shared service opportunities. The Joint Strategic Partnership with Rochford Council continues to progress where savings and efficiencies will be realised.
 - i) Prioritising the delivery of projects

HRA Outturn 2021/22

31. The Housing Revenue Account (HRA) last reported position was a surplus of £119k compared to a surplus of £34k. The main variance contributing to this forecast compromised of revenue costs associated to the small sites development programme.
32. Appendix E highlights the forecast position currently for the HRA, which now reports a £37k surplus. The main decrease from the previous position is due to the impact of the approved pay award for 2022/23.

HRA Forecast

33. The budget guidelines assumptions for the General Fund are applicable to the HRA. No guidance has yet been received regarding rents for the HRA. This will be updated in the final budget report.
34. A 30-year forecast for the HRA is produced annually by a third party supported by officers. The revision of this business plan is currently underway aligning the revenue budgets alongside the HRA asset investment program and housing development program. This will support in ensuring the HRA delivers a balanced budget and will be reported as part of the budget report.

Capital Program

35. The current capital budget totals £59.008m including £17.532m of slippage from 2021/22. The detail capital program is disclosed in Appendix F and identifies £34.722m of forecasted slippage.
36. There has been minimal change to variances since the programme was reported to the last Committee meeting on 14th September.
37. Regarding the Capital Program beyond 2022/23, growth bids have been received and scrutinised by the Senior Leadership Team. These bids will then be prioritised, and funds allocated based on the priority need of the organisation developing the future capital program.
38. There are many ambitious schemes the Council wants to undertake and limited funds available. All these capital projects need to be financially appraised to help support the revenue budget as well as the Council's priorities. Zero based budgeting is the term being applied to the Capital program for future years, by prioritising all the projects the council can then make the decision on what limited funds can be allocated. Projects that do not get funds allocated in this budget setting cycle will be reviewed as part of the following years budget.

Treasury Management Mid-Year Review

39. The Council's Treasury Management Strategy was approved by Council on 23 February 2022. It is a requirement of the Strategy that a half yearly report is presented to Members detailing any changes to the approved strategy.
40. This mid-year report within Appendix G covers the following:
 - a) An economic update for the 2022/23 budget year to date
 - b) A review of the Treasury Management Strategy and Annual Investment Strategy
 - c) A review of compliance with Treasury and Prudential Limits
 - d) A review of the Council's borrowing activity
 - e) A review of the Council's investment portfolio
 - f) A review of compliance with Treasury and Prudential Limits

Consultation

41. Budget consultation was carried out between 30 August 2022 and 16 October 2022. A total of 83 responses were received. The key headlines for the responses are:
 - 66/83 (79.5%) want to increase Council Tax to maintain or increase the service provision

- 43/83 (51.8%) disagreed with raising car parking fees and charges
- 57/83 (68.7%) wanted to increase the use of modern technology
- Most important priorities were to support local business & support and invest in community
- 41/83 (49.4%) want us to spend more on street services – This was the highest service area identified for spending more on.
- 43/83 (51.8%) want us to spend less on community development & planning policy

References to Corporate Strategy

42. Maintaining a financial strategy for the Council helps inform how corporate priorities are delivered, in particular aspirations to deliver an effective and efficient council.

Implications

Financial Implications

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

43. Financial implications have been included within the report.

Legal Implications

Name & Title: Steve Summers, Strategic Director and Monitoring Officer
Tel & Email: 01277 312500/steve.summers@brentwood.gov.uk

44. Section 151 of the Local Government Act 1972 requires the Council to make proper arrangements for the management of its financial affairs. The adopting a Medium-Term Financial Strategy and reporting on this to Councillors is consistent with these obligations and will assist the Council in setting a balanced budget, by forecasting any funding gaps that will need to be addressed.

Economic Implications

Name/Title: Phil Drane, Director of Place
Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk

45. It is important that the Council monitors budgets as part of a Mid-Year Review and setting a Medium-Term Financial Strategy. This will inform how corporate priorities are funded and delivered, including aspirations to grow the economy.

Equality and Diversity Implications

Name/Title: Kim Anderson, Partnerships, Corporate Manager (Communities, Leisure and Health)
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46. The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
 - b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
47. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for b) or c), although it is relevant for a).
48. The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

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

None

Background Papers

None

Appendices to this report

- Appendix A: General Fund 2022/23 Estimated Outturn
- Appendix B: General Fund Subjective Changes
- Appendix C: Earmarked Reserves Forecast
- Appendix D: 2023/24 Base Budget Amendments (Draft MTFS)
- Appendix E: HRA 2022/23 Estimated Outturn
- Appendix F: Capital 2022/23 Estimated Outturn
- Appendix G: Treasury Management Mid Year Review