POLICY & RESOURCES COMMITTEE	Agenda Item 68 Brighton & Hove City Council

Subject:		**General Fund Budget Planning Update**		
Date of Meeting:		**8 October 2020**		
Report of:		**Acting Chief Finance Officer**		
Contact Officers:	**Name:**	**Nigel Manvell** **James Hengeveld**	**Tel:**	**01273 293104** **01273 291242**
	Email:	Nigel.manvell@brighton-hove.gov.uk james.hengeveld@brighton-hove.gov.uk		
Ward(s) affected:		**All**		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 This report provides an update on the General Fund financial position following the report to July Policy & Resources Committee which highlighted the potential scale of the deficit this year and potential budget shortfalls that need addressing in 2021/22 and beyond.

1.2 As reported to the committee over recent months, the pandemic has had, and continues to have, a severe impact on the council's finances through additional costs, losses of fees & charges, and reductions in tax revenues. However, there is evidence of economic and visitor number recovery, although not across all sectors, and this has helped to improve income forecasts in some areas while emergency expenditure is also reducing in many areas. The Targeted Budget Management Month 5 (August) report, also on this committee agenda, provides full details of changes in expenditure and income forecasts.

1.3 This separate report considers the key question of whether the council should consider taking Emergency Budget measures or, alternatively, use one-off reserves to mitigate any in-year deficit, the latter requiring replenishment of reserves over future years.

2. RECOMMENDATIONS:

That the Policy & Resources Committee:

2.1 Notes the updated 'Moderate View' forecast as at Month 5 (August) which indicates a deficit of £19.671m consisting of an overspend on services of £7.853m and a Collection Fund deficit of £11.818m.

2.2 Approves the use of the 'Financial Smoothing' mechanism set out in paragraph 3.14 to manage Covid-related budget deficits both for the current year and for 2021/22 assuming a maximum of £20m for financial planning purposes and, if agreed, notes: -

(i) that the expected use of reserves to mitigate any deficit will be updated for the month 9 (December) forecast and recommended and approved by Policy & Resources Committee and Budget Council respectively in February 2021, and;

(ii) that the actual use of reserves to mitigate any deficit will not be finally determined until the 2020/21 accounts are closed and the outturn position reported to Policy & Resources Committee for approval in July 2021.

2.3 Agrees to the continued pause of new capital schemes as set out in paragraph 3.27 and that paused schemes will be subject to further review at the December Policy & Resources Committee meeting.

3. CONTEXT/ BACKGROUND INFORMATION

Financial Impact of the Covid-19 Pandemic

3.1 During the initial crisis period and lockdown, the pandemic significantly increased social care, homelessness, public health, PPE, coroner and other related emergency response costs but also resulted in a severe economic slowdown. The latter impacted many sectors that are heavily reliant on visitors to the city. This in turn resulted in an impact on the council's finances due to significant impacts on sales, fees & charges income, particularly museum and event venue incomes, as well as parking charges and penalty notices.

3.2 Similarly, taxation revenues have been affected primarily due to the impact on businesses and jobs and therefore more people needing financial support, such as Council Tax Reduction. There has also been a slow-down in housing developments, impacting on the tax base, and it is expected that Council Tax collection rates will be impacted, particularly in relation to older debts. There are similar impacts in relation to Business Rate growth assumptions and collection rates.

3.3 The council has only been able to offset these impacts to a limited extent because it is expected to continue to support its suppliers and service providers in line with the Cabinet Office Supplier Relief Policy Note and, as a public authority, it is not expected to make significant use of the government's Employment Support scheme (furlough). The majority of its statutory services must also continue to be provided alongside a wide range of other essential services such as refuse and recycling collections.

3.4 In response, the government provided Emergency Response grant funding in 3 tranches which, for this council, amounted to £18.762m of which £0.300m was used at the end of the last financial year. Following significant lobbying across the sector, the government also recognised the scale of losses on Sales, Fees & Charges income and in early July announced a new compensation grant that would provide for 75% of losses after removal of a 5% deductible. This grant is currently estimated to be worth £14.966m to the council and is included in the TBM Month 5 forecast reported elsewhere on this committee agenda.

3.5 In the report to July Policy & Resources Committee, the level of government grant funding assumed for planning purposes was £25.905m. The current position, including all announcements, is that government grant funding is expected to be £33.428m, an improvement of £7.523m on the assumed level.

Current Year Financial Position 2020/21

3.6 Estimating costs and losses for the whole of 2020/21 remains challenging but there is some stabilisation of activity and evidence of economic and visitor recovery which are contributing to improving, though still formidable, forecasts. As previously reported, there are still a wide range of factors that could affect the current forecasts including:

- The timelines for easing distancing measures and the continuing impact of any measures on businesses, visitor attractions, events and other activities;
- The potential for a second wave or local outbreak to impact negatively on these timelines;
- Potential further government funding support for local authorities;
- Potential further funding for Adult Social Care hospital discharges via the Clinical Commissioning Group (i.e. further NHS funding);
- The general macro-economic impact and how this translates locally into the impact on individuals and businesses over time and the resulting impact on local taxation revenues; and
- The potential for further cost savings for the council through furlough and across other budget headings such as contracts and supplies & services.

3.7 For planning purposes, both in the current year and for longer term planning, a number of scenarios were considered in the report to July Policy & Resources Committee. These consisted of 'Worst Case', 'Moderate View' and 'Optimistic View' scenarios. All scenarios started with the TBM Month 2 (May) financial forecast and then added estimates for potential improvements in income, expenditure and grant funding with the 'Moderate View' representing officers best estimate of the likely position for the year.

3.8 Using the TBM Month 5 (August) information reported elsewhere and updating for the latest estimates of government grant support, the following table compares the 'Moderate View' position as at July with the latest forecast.

Table: Updated Moderate View Forecast 2020/21

	Moderate View Forecast (July P&R)	**TBM Month 5 (August) Forecast**	**Difference Better (-) Worse (+)**
Base position: TBM Forecast Month 2 (May)	36.003	36.003	
Improvement due to speed of recovery (Income)	-5.000	-4.081	+0.919
Further Mitigations (i.e. cost improvements)	-3.000	-6.054	-3.054
Continued Capital Programme pause	-0.500	-0.492	+0.008
Further government COVID-19 funding	-10.000	-17.523	-7.523
Revised Outturn Overspend 2020/21	**17.503**	**7.853**	**-9.650**
Forecast Collection Fund Deficit 2020/21	10.000	11.818	+1.818
Total Projected Deficit 2020/21	**27.503**	**19.671**	**-7.832**

3.9 All things taken into consideration, by comparison to the Moderate View estimate reported to the July committee meeting, the current position is £7.832m better with a projected deficit in 2020/21 of £19.671m. Although this is clearly a significant move in the right direction, without very significant improvements in taxation revenues and/or additional government grant funding, there clearly remains a very substantial projected deficit for 2020/21. Note also that further improvements in income from here on in will now have less impact because for every £1.00 improvement, the council will lose £0.75p in compensation grant.

3.10 It should be noted that the Collection Fund deficit relates to the net effect of reduced Council Tax and retained Business Rate revenues caused by increased Council Tax Reduction (CTR) claims, reduced collection rates, and lower than anticipated business and housing growth. The current estimated deficit is £11.818m but could still improve if the current increase in CTR claims proves to be a short-term spike and collection rates recover later in the year. A key factor is the government's continuing support for the furlough scheme, which has now been extended for 6 months through a new jobs support scheme, although the government funding will be at a rate of one-third of wages rather than the 60% level in the final month of the current scheme. The new jobs support scheme requires people to work at least one third of their normal hours.

Managing the 2020/21 Forecast Deficit

3.11 The report to July Policy & Resources Committee advised that without very substantial additional government funding or a sharp 'V-shaped' economic recovery, the council would need to consider two options for managing the position in 2020/21. These were:

(i) An **Emergency Budget Option**: This option would be taken if a more prudential approach were considered necessary and could include approval for emergency reductions to non-statutory expenditure and services alongside all other available mitigation measures such as vacancy management and other spending controls. This option could still include some use of reserves or balances with a plan for their replenishment over future years; and

(ii) A **Financial Smoothing Option**: This option might be favoured if a more optimistic view were taken alongside utilising all available mitigations and financial recovery actions to manage the projected deficit down as far as practicable and safe. Any remaining deficit would then be covered by utilising reserves and balances which would need a plan for replenishment over future years. It is called 'financial smoothing' because it effectively buys time to manage the financial impact over a period of years.

3.12 The main factors in considering which option to adopt are:

(i) The scale of the projected deficit relative to the available reserves and balances the council would need to apply to the situation. As previously reported, the council has approximately £50m reserves and balances but is required to maintain significant risk reserves and balances to meet normal insurance, legal, financial and contractual risks. In addition, all earmarked reserves are held to meet future contractual commitments, regeneration scheme costs or other identified liabilities and therefore not all reserves are immediately available to use. Using reserves to meet a deficit exceeding, for example, £30m to £40m would therefore present a very serious risk to the financial sustainability and stability of the council and an Emergency Budget would be more appropriate in this scenario.

(ii) The expected trajectory of the pandemic. A clearly worsening situation resulting in a sustained local lockdown and consequent sustained impact on the local economy, visitor numbers and therefore council finances, would indicate that a more determined and sustainable response may be required rather than the short term use of reserves.

(iii) Consideration of the impact of an Emergency Budget including the impact of the reduction, suspension or cessation of council services on residents, service users and staff, and on the economy through reduced spending either on in-house services or on contracted services. Withdrawal of spending and services would be likely to impact adversely both on residents and on local economic recovery.

3.13 As the projected deficit has reduced to £19.671m, representing 39% of total reserves, and there are reasonable prospects for a slow but steady recovery of the economy and visitor numbers, particularly with the announcement of the extension of the employment support scheme for 6 months, the use of Financial Smoothing is the recommended approach at this time. The advantages of Financial Smoothing are that:

- It provides the council with time to review its medium term financial plan and to plan for any service changes in a considered and organised way, thereby minimising immediate impacts on services and residents;
- It avoids the council impacting further on local economic recovery by withdrawing public spending at a critical time; and
- It avoids diverting officer capacity to managing, consulting on and implementing reduction, suspension or cessation of services at a time when resources are best focused on responding to the pandemic and planning for and aiding recovery.

3.14 As previously reported, if Financial Smoothing is preferred, involving utilising reserves to meet any deficit, the council will need to identify which reserves could be used and consider the timeframe for their replenishment. The following principles are recommended to be applied when considering the use of reserves and balances:

- The council's Working Balance is an annually assessed risk reserve held to meet legal and financial risks including appeals, challenges or contractual disputes, as well as potential billing failures, civil contingencies and other emergencies. It is currently £9.000m, which is approximately 4% of the General Fund and represents around 3 weeks' council tax income. As it is a key component of demonstrating the council's sustainable financial management and financial resilience, it should be protected and should not be utilised for financial smoothing.
- The council has other risk reserves such as the Insurance Fund which covers insurance risks for which the council cannot readily obtain policies or to cover agreed excesses and deductibles as part of achieving better value for money premiums. Such reserves could be called on at any time and therefore the council should take this into account when considering the timeframe for replenishing these reserves.
- Other reserves can be 'borrowed from' provided there is a plan for their replenishment over a reasonable timeframe and before they are due to be called upon.

Exactly which reserves are utilised can be kept under review as part of the council's normal bi-annual review of reserves which includes the annual budget setting process (February) and the annual closure of accounts process (June/July).

3.15 For the purposes of the Medium Term Financial Strategy, which will need to reflect replenishment (repayment) of reserves, a 10-year timeframe will initially be adopted for planning purposes. However, if the use of reserves is ultimately lower than estimated, for example, £10 million or less, a shorter timeframe should be considered by full Council when setting the budget. Repayments are not recommended to start until 2022/23 to relieve pressure on the 2021/22 budget where ongoing financial effects of the pandemic are still likely to be evident.

3.16 Decisions on which reserves will be used to support financial smoothing are not required now. The final allocation of reserves will be made by Budget Council in February 2021 and will be revisited by Policy & Resources Committee when the 2020/21 outturn position is finalised in July 2021.

3.17 The government announced that council tax and business rates collection fund deficits from the current financial year can be spread over three years rather than just one. As this accounts for £11.818m of the £19.671m this could significantly reduce the draw on reserves need to fund all this deficit from reserves in the short term.

3.18 The government has also indicated that some funding for collection fund losses will be announced in the next Comprehensive Spending Review (CSR), in which the government will agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020/21. No assumptions of funding through this route have been included in projections.

Budget Planning 2021/22 to 2023/24

3.19 The July report also explored scenarios for 2021/22 to enable the budget planning progress to begin. A 'Moderate View' estimate indicated a potential budget shortfall (gap) of £17.3m in 2021/22 which the committee agreed to use as the basis for developing draft budget proposals. However, the committee will be aware that forecasting for 2021/22 is even more challenging than the current year and that the full range of budget gaps could be between £11m and £27m depending on the level of government funding and the ongoing impact on taxation revenues.

3.20 The government has recently announced that it will not present an Autumn Budget stating that it is not the time to outline longer term plans. The government had previously indicated it would be producing a 3 year Spending Review this autumn however it is now very likely there will be a one-year only Spending Review and the timing of this is not clear. This doesn't make the situation any easier for local authorities in terms of financial planning and leaves a significant number of variables and unknowns to manage.

3.21 At this stage the Medium Term Financial Strategy assumes an additional £11m grant funding in 2021/22 for Adult Social Care and ongoing impacts of the pandemic. This is considered a reasonable assumption in light of the impacts on local authority budgets that government will be fully cognisant of through the monthly MHCLG Financial Data Return collection process. However, it should be noted that the budget gap of £17.3m in 2021/22 also assumes that the council's income from Sales, Fees & Charges will recover to normal (budgeted) levels. This is a significant assumption and would be likely to require that virtually all social distancing measures have been removed to be achievable. If this is not the case, further financial impacts are likely unless the government continues to compensate local authorities accordingly.

3.22 The main options or possibilities for closing any projected budget gaps are as follows:

(i) Government may provide increased funding (compared to the level assumed) through the Local Government Financial Settlement. Potential grant funding for Adult Social Care and COVID-19 is discussed above;

(ii) Government may allow council's to levy additional Council Tax increases through precepting to provide additional funding for a specific area, e.g. Adult Social Care. Similarly, government may relax the current 'excessive Council Tax increase threshold', thereby allowing higher increases. Both would be optional and subject to full Council approval.

(iii) The council could elect to increase Council Tax above the current 'excessive council tax increase threshold' (i.e. currently 1.99%). This would require a local referendum to be held with a successful outcome. Holding a referendum would cost approximately £0.370m and doing so also requires identification of one-off resources to mitigate the delay in implementing proposals while the outcome is awaited. It is also a legal requirement to have a substitute budget should a referendum not be successful;

(iv) Partners could provide increased funding for joint operations e.g. CCG funding toward social care costs. However, the CCG has reduced its funding support in previous years because it is also under increasing financial pressure. Other partners are small by comparison;

(v) There may be improvements in the projected level of cost, income and/or demand pressures to be prioritised in the current estimates;

(vi) The council can identify a programme of savings measures to either reduce costs in non-priority areas, manage down demand pressures (e.g. through prevention and commissioning strategies), generate greater incomes or attract alternative funding.

Options (i) to (v) above carry a high level of uncertainty and therefore the authority will normally need to develop savings proposals and options as described in (vi) above.

3.23 The council's Executive Leadership Team are currently developing budget and savings proposals to address the predicted budget gap in 2021/22 and these will submitted to Policy & Resources Committee in draft form in December 2020 as normal.

3.24 The council is also exploring working with the Local Government Association (LGA) who are currently focusing their support for councils on addressing Covid-19 and its consequences. The LGA's Recovery and Renewal programme aims to utilise their experience and knowledge of the sector to provide the authority with assurance and constructive challenge regarding the development of its recovery and renewal, and budget proposals in this context. This will include providing awareness of what other authorities have considered and successfully implemented, using their network of contacts and information channels.

Pausing of Capital Programmes

3.25 At the 30 April 2020 Policy & Resources Committee, the committee agreed to pause a number of new capital schemes backed by capital receipts and/or borrowing, including schemes where the borrowing is to be funded from future income generation. Capital Schemes with a total value of £26.216m were put on pause pending a review of the council's financial situation resulting from the pandemic. The schemes were paused until July when they were reviewed again and it was agreed to un-pause a small number of schemes but continue to pause schemes with a value of £24.683m until further review at the October Policy & Resources Committee. The schemes recommended for continued pause were primarily those where financing costs were predicated on planned growth in overall income or rental budgets, which has not yet materialised.

3.26 As can be seen from the information earlier in this report and from the TBM Month 5 monitoring report, the financial situation is improving but there remains a very substantial deficit that will require the unplanned use of reserves. A continued pause of new schemes funded from borrowing is therefore recommended due to the additional revenue burden, estimated at £0.492m, that these would place on an already challenging situation. Pausing continues to be focused only on those schemes where loan repayments are funded by income generation that is now suppressed due to the pandemic.

3.27 The table below sets out the schemes recommended for continued pausing until the 3 December 2020 Policy & Resources Committee where the situation can be reviewed again in light of any significant improvement in the forecast deficit and/or any further information from government, in particular the one-year Spending Review or any further announcements of funding support.

Table: Capital Schemes Recommended for Continued Pause

Scheme Description	**2020/21 Borrowing £000**	**October Review Recommendation**
City Development & Regen		
Sustainability & Carbon Reduction Investment Fund	500	Continue pause
Sustainability & Carbon Reduction Investment Fund - Transport BUDGET AMENDMENT	3,900	Continue pause
Culture		
Purchase of Commercial Properties to support Madeira Terraces Investment - BUDGET AMENDMENT	20,000	Continue pause
Economy Environment & Culture Total	**24,400**	

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 Two primary options for addressing the 2020/21 projected deficit are considered in this report. Both are viable but a preference for one over the other will take into account the factors set out in paragraph 3.12. At this stage, Financial Smoothing through the use of reserves is the recommended option as the current deficit is at a level that would not, in the view of the Chief Finance

Officer, destabilise the council's finances or leave it in an unsustainable financial position, carrying unduly high financial risks.

5. COMMUNITY ENGAGEMENT AND CONSULTATION

5.1 No specific consultation has been undertaken in relation to this report.

6. CONCLUSION

6.1 In conclusion, at this stage of the year, the combined impact of the forecast in-year overspend and estimated 2020/21 Collection Fund deficit is an overall deficit of £19.671m. In the context of the council's overall reserves and balances, this level of deficit can be managed by borrowing from reserves and then agreeing a plan to replenish them over a period of years to attempt to minimise the immediate impact on services. However, it must be noted that this will have a number of negative consequences for the authority including:

- The need to make provision for repayment of reserves in future years which could impact on service provision or delivery of corporate priorities such as carbon reduction initiatives;
- An increased level of financial risk as any significant depletion of reserves reduces the council's financial resilience against other potential financial risks or shocks; and
- A potential impact on the council's ability to support longer term financial recovery because, for example, a number of reserves are held in lieu of major regeneration schemes.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: James Hengeveld *Date: 25/09/20*

Legal Implications:

7.2 The process of formulating a plan or strategy for the council's revenue and capital budgets is part of the remit of the Policy & Resources Committee. The recommendations at paragraph 2 above are therefore proper to be considered and, if appropriate, approved by it.

7.3 This report complies with the council's process for developing the budget framework, in accordance with Part 7.2 of the Constitution.

Lawyer Consulted: Elizabeth Culbert *Date: 28/09/20*

Equalities Implications:

7.4 For any significant budget changes, either in the current year or for 2021/22, it is proposed to continue the screening process undertaken in previous years and continue to improve the quality and consistency of Equality Impact Assessments (EIAs). Wherever possible, key stakeholders and groups will be engaged in developing EIAs but we will also need to consider how Members and Partners can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, there may be a need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of funding pressures across the public and/or third sectors. The process will ensure that consideration is given to the economic impact of proposals.

Sustainability Implications

7.5 The council's revenue and capital budgets will be developed with sustainability as a key consideration to ensure that, wherever possible, proposals can contribute to reducing environmental impacts and a low carbon economy.

Risk and Opportunity Management Implications:

7.6 There are a range of risks relating to the council's short and medium term budget strategy including the impact of the pandemic, ongoing economic conditions, changes in the national budget, pressures on existing budgets, further reductions in grants, legislative changes or demands for new spending. The budget process will normally include recognition of these risks and consider options for their mitigation. In the current unprecedented situation, the level of risk that the council may be prepared to carry and accept is likely to be higher than in normal circumstances. A full assessment of forecast risks and delivery risks associated with implementing budget proposals will be provided as part of the budget setting process and reports to members.

SUPPORTING DOCUMENTATION

Appendices:

None

Documents in Members' Rooms

None

Background Documents

None