

## Resources Updates and Assumptions 2022/23

### General Fund Budget

#### Local Government Financial Settlement (LGFS)

- 1.1 The government announced a one-year Spending Review in November 2020 for the financial year 2021/22 which followed a one-year Spending Review for 2020/21. A Spending Review is expected in November 2021 but at this stage it is not clear if this will be for one year only or will be a longer term announcement. The profound impact of the pandemic on the national financial position in the short term alongside the assumptions around recovery will determine the level of certainty the government could provide over the medium term and this will impact on the Local government Finance Settlement for 2022/23 and future years.
- 1.2 As part of the response to the pandemic the government confirmed that the planned reforms to local government finance relating to the Fair Funding Review and 75% Business Rates Retention would be delayed for 2021/22 and it is unlikely these reforms will come forward for 2022/23. The pandemic has created financial pressures across local government that are expected to have a longer term impact on the Council's financial position and these pressures are being presented to Treasury as part of the call for evidence to inform the spending review.
- 1.3 The provisional LGFS for 2022/23 would normally be expected in December 2021 including confirmation of the council tax 'excessive increase' threshold above which a referendum would be required. The financial impact of the Covid-19 pandemic has introduced considerable uncertainty in predicting the government's approach to financial resources for local government for future years, therefore the following resource assumptions should be treated with caution and will be updated as further government announcements are made.

#### Government Grants and Precepts

##### *Revenue Support Grant (RSG)*

- 1.4 For the 2021/22 LGFS the government rolled forward the 2020/21 RSG allocation. With the expectation that local government finance reforms will continue to be on hold it is assumed that this grant will again roll forward into 2022/23 at the previous year's level of £6.666m.

##### *Adult Social Care precepts and Better Care Funding*

- 1.5 The core assumption is that the additional grants announced as part of the 2021/22 settlement relating to Social Care will roll forward and continue in 2022/23 at the same level. In 2021/22 the council was able to levy a 3% Adult Social Care Precept to support the increased costs in this area however this flexibility was across 2021/22 and 2022/23 and so no further flexibility has not been assumed for 2022/23.
- 1.6 Adult social care costs were continuing to increase significantly prior to the Covid-19 pandemic. The council worked with the CCG to support the early discharge of patients from hospital to free up capacity as part of the pandemic response and as

a result the council is incurring significant increases in costs which are likely to remain over the medium term.

- 1.7 The medium level planning assumption is that the government will continue to provide additional ongoing support year on year and the Medium Term Financial Strategy includes £2m additional funding in 2022/23 in this respect.

<b>Table : Social Care Resources</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23 Planning Assumption</b>
ASC Precepts	2% £2.894m	3% £4.450m	0% -
Improved Better Care Fund (BCF)	£9.181m	£9.181m	£9.181m
Adults & Children's Social Care grant	£2.100m	£2.100m	£2.100m
New Adult social Care Grant	£4.715m	£4.715m	£4.715m
New Social Care Grant (SR2020)	-	£0.944m	£0.944m
Additional Social Care Grant funding assumption			£2.000m

### ***New Homes Bonus (NHB)***

- 1.8 The government provided a one-year extension to the NHB scheme for 2021/22 and intended to explore how to incentivise housing growth effectively going forward. The planned consultation on the future of this incentive is assumed to be put on hold. Even if the scheme is extended for a further year the council is unlikely to reach the threshold of new homes required to receive additional NHB. The budget assumption is the continued tapering of the remaining years from previous allocations meaning the council would receive £0.336m in 2022/23.

### ***Other grant changes***

- 1.9 There is no update on grant allocations beyond 2021/22 as they are assumed to be announced alongside the provisional local government finance settlement.
- 1.10 The budget estimates assume a continuation of the 10% reductions in the centrally held unringfenced grants budget for 2022/23 in line with previous government funding reductions. This includes grants such as Housing Benefit Admin grant.

### **Business Rates**

#### ***Business Rates estimate for 2022/23***

- 1.11 It is very difficult to predict the ongoing impact of Covid-19 on businesses within the city and the impact this may have on the level of business rates income. In 2020/21 and 2021/22 the government announced significant retail reliefs of c£120m for Brighton and Hove across the 2 years to support business through the pandemic

and recovery period. The council has been fully compensated for any loss of income from these reliefs through section 31 grant.

- 1.12 The projections for 2021/22 included an allowance for a net reduction in business rates income driven by increased empty property reliefs, business failures and potential bad debts. For 2022/23 the projections are based on this revised starting position and the medium view includes a 1% growth compared to 2021/22. This reflects the completion of a number of business space developments across the city net of further impact on the retail sector. The range used in scenario planning within the body of the report is 0% growth to 1.5% growth. Business rates are planned to increase by CPI based on September 2021 and the planning assumption is 1%. Recent government projections potentially see CPI being higher but for scenario planning the range is 1% to 1.8%.
- 1.13 Business Rates forecasts continue to be an area of financial risk which is heightened by the unknown ongoing impacts of the pandemic on businesses and these estimates could change significantly.

### **Council Tax**

#### ***Council Tax Reduction Scheme***

- 1.14 The council's localised Council Tax Reduction Scheme (CTRS) was amended at full Council in January 2021 to increase the maximum award for working age claimants from 80% to 82% and remove the minimum threshold for an award.
- 1.15 The annual review of the scheme requires consultation proportionate to the significance of any changes proposed. Potential options are currently being developed and the statutory annual review of the scheme will be presented to this committee in October 2021 and then to full Council to agree the final scheme for 2022/23. The council also intends to continue to operate a discretionary fund. Council Taxpayers in particularly difficult financial circumstances are able to apply for the discretionary funds provided for in the budget and/or are referred to appropriate support and advisory services.
- 1.16 The council had experienced ongoing reductions in the number of CTRS claimants for both working age and pensionable age averaging over 5% in recent years. Reductions in claimants results in an increase in the council tax base. However, the pandemic has caused increased financial hardship and as a result the number of working age claimants has risen significantly throughout 2020/21 but appears to have reached a peak in April 2021 giving a 15% increase in the number of working age claimants compared with Feb 2020. It is difficult to predict whether, and how quickly, claimants' financial position will change as the city recovers from the pandemic however reducing numbers from the peak were assumed in projections for 2021/22 and this is expected to continue into 2022/23 reverting to early 2020 levels by March 2023.

#### **Council Tax Estimate 2022/23**

- 1.17 The council tax increase for 2022/23 is currently assumed at 1.99% for planning purposes. This assumes the government does not provide additional council tax increase flexibilities through Adult Social Care precepting. The ongoing impact of the pandemic on council tax income remains difficult to predict but expected

reductions in CTR claimants, new housing developments and improved council tax collection have been assumed for 2022/23. The collection rate reduction in 2021/22 was covered by additional one off grant from government and is assumed to revert to 99% collection from 2022/23 onwards. The projected net increase in tax based from new properties and changes to discounts (including CTR) is assumed to be 1.25%. The range used for scenario planning is 0.6% to 1.6%. These estimates will be updated over the coming months when the impacts should become clearer.

### **Corporate Inflation Provisions**

#### ***Pay***

- 1.18 At present there is no agreed pay offer for 2021/22 or 2022/23. The latest employers' pay offer for 2021/22 is 1.5% while the budget assumption was 0% with an allowance of £250 increase for employees with salaries under £24,000 per annum. Although the employers offer has been rejected, this sets a minimum addition cost to be funded with a net impact of £1.680m in 2021/22. The extra cost of the pay award will be funded from one off resources through the improved 2020/21 outturn position and creates a financial pressure in for 2022/23 onwards. For 2022/23 onwards budget estimates assume a general 1.5% increase in pay. This assumption will be monitored closely as changes to pay represent a significant proportion of council expenditure and therefore financial risk.
- 1.19 The council's pay structure is primarily based on national negotiating body pay spines and nationally negotiated settlements. The council also pays in accordance with Living Wage Foundation rates. Pay structures are kept under review in the context of local conditions and recruitment and retention issues but there are no specific provisions assumed in the 2022/23 for increased costs beyond annual pay award costs.

#### ***Pensions***

- 1.20 The last triennial review of the East Sussex Pension Scheme covered the period 2020/21 to 2022/23 and showed year on year reductions in the employer contribution rates. In 2021/22 the employer rate was 20.3% reducing to 19.8% in 2022/23, reducing employer contributions by £0.450m for the general fund. The financial health of the East Sussex Pension Fund has been affected by volatile world financial markets during the pandemic which could give rise to changes in the employer rates to ensure financial stability. However, the fund projections are based on a 20 year horizon and therefore the planning assumption is that the agreed employer contribution rates will not change from those agreed in the review.

#### ***Prices***

- 1.21 The provision for general price inflation ranges between 0.75% and 2% depending on the type of expenditure. Non pay costs are assumed to increase by between 0.75% and 1% with the exception of social care related third party payments where a 2% inflation assumption has been maintained. Increases in costs above the assumed inflation levels will be managed through services' budget strategies unless the increase is significant and is identified as a corporate budget pressure.

### **Fees and Charges**

- 1.22 Fees and charges budgets for 2022/23 are assumed to increase by a standard inflation rate of 1.5%, Penalty Charge Notices (parking fines) are excluded from this increase as the levels of fines are set by government and cannot be changed independently.

### **Commitments & Risk Provisions**

- 1.23 The budget projections for 2021/22 include a number of commitments; the most substantial include a step increase in IT&D resources including the replacement of the Wide Area Network; increases in financing costs to reflect capital investment decisions; repayment of reserves used for financial smoothing and expected reductions in unringfenced grants.
- 1.24 There is no recurrent risk provision funding included within the financial projections. For planning purposes, any risk provision would need to be managed by redirecting reserves in the short term.

## **Schools Funding**

### **Additional government support to schools for Covid-19**

- 1.25 The government announced a £1bn support package to support pupils who may have fallen behind due to lost teaching time as a result of coronavirus (COVID-19). This package includes:
- £650 million for schools over the 2020 to 2021 academic year to help head teachers to provide extra support to children who have fallen behind while out of school. Details of how this funding will be distributed are still to be announced however it is anticipated that this will equate to around £3m for schools in Brighton and Hove.
  - £350 million for catch-up tutoring aimed specifically at the most disadvantaged children.
- 1.26 The £1 billion package is on top of the £14.4 billion three-year funding settlement announced in 2019, recognising the additional work schools will need to do to help students to catch up.

### **Schools Funding 2021/22 and 2022/23**

- 1.27 On 3 September 2019, the Spending Review announced the government's commitment to increase the schools budget over each of the 3 financial years from 2020/21. To fulfil this commitment, the Spending Round exceptionally set budgets for schools until 2022/23. Within this was a commitment for the national schools budget to rise by £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels.
- 1.28 The Spending Review announcement in Autumn 2020 confirmed that this funding settlement is still secure despite the wider impact on government finances caused by the Covid pandemic.

## Housing Revenue Account (HRA)

- 1.29 The Housing Revenue Account (HRA) is a ring-fenced account within the General Fund which covers the management and maintenance of council owned housing stock. This must be in balance meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.
- 1.30 Although the HRA is not subject to the same funding constraints as the rest of the General Fund it still follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery.
- 1.31 The HRA Budget aims to balance the priorities of both the council and council housing residents within the context of the council's Housing Strategy, Housing Revenue Account Asset Management Strategy and the Corporate Plan priorities which set out the overall direction for Housing in the city over a 4 year period.
- 1.32 The pandemic is likely to have an ongoing effect on the resources available to the HRA during 2021/22, mainly as a result of a loss in rental income collected during the first quarter of the year, as households face financial hardship. The withdrawal of the Universal Credit top up of £20pw later in the year is also likely to have an impact. The Housing Income Management Team is working with residents to minimise this impact. However, indications are that this is a short to medium term reduction in revenue and should not affect the long term plans and aspirations of the council in respect of the HRA and associated capital investment plans.
- 1.33 A key area of focus for 2021/22 will be catching up on the delayed delivery of responsive repairs, empty property refurbishments, planned maintenance and major capital works to council homes due to the pandemic. The HRA has set up reserves to assist this process.
- 1.34 The budget for 2022/23 will allow for rent increases of up to CPI (at September 2021) plus 1% as allowed for in the Government guidance for five years from April 2020.
- 1.35 Rents are not calculated to take into account any service charges and only include all charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant or which may be connected with communal facilities rather than to a particular occupation of a house or flat. Different tenants may receive different types of service reflecting their housing circumstances. All current service charges are reviewed annually to ensure full cost recovery and also to identify any service efficiencies which can be offset against inflationary increases, to keep increases to a minimum. The budget for 2022/23 will review any new areas for service charging as appropriate.