

Item No. 8.	Classification: Open	Date: 15 June 2021	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: Financial Remit 2022-23 and Scene Setting, Fairer Futures Budget Principles update	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Rebecca Lury, Finance, Performance and Democracy	

FOREWORD - COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE, PERFORMANCE AND DEMOCRACY

This report begins the Council's 2022-2023 budget planning process in the context of a draft set of refreshed Fairer Futures Budget Principles. It is dominated by huge financial uncertainties. The impact of COVID-19 on our communities, services and finances has been acute and the route and length of recovery remains difficult for us to plot.

The budget process will culminate in setting the budget and council tax in February 2022. The council has a statutory duty to set a balanced budget each year.

The report assesses the financial impact of Covid-19 and reviews other key financial assumptions and issues that the council needs to consider in making its plans for the period and to ensure that the budget and financial strategy continues to align with the priorities in the Council Plan.

We have been through a decade of financial austerity and now look set to face further significant turbulence as a result of the Covid pandemic, the fallout from Brexit and the future funding of local government. Over the last decade we have focused on the delivery of our Council Plan and fairer future promises. We have consistently promised value for money and committed to spending money as if it were from our own pocket. It is vital that we continue to maintain strong financial management at this time in order that we can do the best for our residents, communities and businesses.

The report sets out an approach for the budget process for 2022-23 that takes account of the above and the requirement to identify savings options that fit within the overall policy and financial framework, aligning resources to the council's key priorities and approach to recovery and renewal.

At this stage there are a great many assumptions and uncertainties, and the financial and economic conditions are continually changing, along with the government response. In addition to inflationary and pay pressures, including the revenue consequences of the council's ambitious capital investment programme, we continue to face demands and pressures on our services, particularly the High Needs Block of the DSG, where the deficit at 31 March 2021 was £21m, adult's and children's social care, homelessness, welfare support and other emerging pressures, for example lost contractual income.

This financial remit report is therefore being compiled in a period of unprecedented financial uncertainty. The report considers the most likely financial position to be faced by the council in 2022-23. The forecast however includes a range of assumptions which may prove to be incorrect; sensitivity testing around these assumptions indicates a significant range of outcomes. The 'most-likely' projected funding gap for planning purposes is £19.4m in 2022-23, but this is in a range of £14m best case to £26.4m in the worst case.

Despite the challenges, this administration remains determined to keep our promises, to protect and modernise our services and to maintain excellent financial planning that is more than fit for the future.

RECOMMENDATIONS

That cabinet note:

1. The progress made on updating the Fairer Future Budget Principles (see draft at Appendix 1) and that a final version will be brought back to cabinet for approval later this year;
2. Continuing financial uncertainty as a result of a number of factors:
 - A one year spending review in 2020 providing no indication of funding for 2022-23 and beyond
 - The postponement of the planned reforms of local government finance (Fair Funding Review, Business Rate Retention arrangements) previously intended to be implemented from April 2021
 - The ongoing deferment of the Business Rates reset
 - A published white paper on Social Care but no clear indication of if, how or when proposals might be implemented
 - The impact of the Covid-19 pandemic on spending, income and savings plans and the pace of recovery
 - The extent of government support to offset the financial cost to the council of the pandemic in 2021-22 and beyond
 - Any local impact arising from the national and global economic environment following the pandemic
 - Economic and financial impacts to the council of exiting the European Union;
 - The current absence of any certainty of funding streams to support climate emergency plans.
3. That the accumulated deficit on the Dedicated Schools Grant was £21m at 31 March 2021 with the prospect of achieving any meaningful reduction without additional funding from the Department for Education being remote;
4. That financial planning is extremely challenging, with a range of potential scenarios suggesting a funding gap in 2022-23 of anywhere between £14m and £26.4m and that, subject to the inherent uncertainties, the central forecast indicates a potential budget gap of £19.4m in 2022-23.

5. The central budget forecast is based on the assumptions set out at paragraph 21, with the key assumptions being:
 - Government funding rises in line with inflation, with the exception of:
 - New Homes Bonus – expected reduction of circa £3.5m resulting from ending of current scheme
 - The Fair Funding review and Business Rate Retention reset will be delayed again until 2023-24
 - Additional costs arising from pay and prices (both 2%)
 - Additional debt financing costs arising from additional capital projects (£2.5m)
 - Council tax will increase by the maximum amount allowed (1.99%)
 - No additional precept for adult social care
 - Council Tax and Business Rate losses arising from the pandemic and associated economic circumstances will be neutralised by a combination of government compensation schemes, service efficiencies and savings and, where appropriate, contributions from earmarked reserves
 - Existing budgeted council income streams will be achieved in 2022-23.
6. The Strategic Director of Finance and Governance, with the support of other Strategic Directors, will look to establish medium term budget plans, reviewing any decisions previously taken.
7. The Strategic Director of Finance and Governance, with the support of other Strategic Directors will seek to prepare indicative savings options and commitments, initially for 2022-23.
8. Cabinet will receive further reports in the autumn including modelling and proposals for future years as further information regarding funding is made available.

BACKGROUND AND PURPOSE

9. Each year, the council updates a detailed Policy and Resources Strategy covering a period that normally reflects the duration of the government's financial settlement. As part of the Policy and Resources Strategy, and in line with requirements of the local government finance act, budgets are approved by Council Assembly for the next financial year as part of Council Tax setting. Where the settlement provides provisional funding commitments for more than one year, budgets may be agreed indicatively for a longer period.
10. For many years this process has formed the pivotal component of the council's financial planning process. This strategy, and the formal approval by Council Assembly, sits at the heart of the council's commitment to financial planning and efficiency. Most importantly, the strategy is bound to the policies of the council and not least by the commitments in the Fairer Future Borough Plan.
11. In September 2015, the council adopted the Fairer Future Budget Principles that confirmed the framework within which the Policy and Resources Strategy is formed. These principles are in the process of being refreshed and a draft version is included at Appendix 1 for consideration and comment with a view to bringing back a final version for approval later in the year. In September 2016 the cabinet

approved the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan noting the relationship to the Council Plan and the new theme to be fit for the future. The FFMTFS was aligned with the four year local government finance settlement announced in February 2016. 2019-20 was the fourth and final year of the four year settlement.

12. Between 2011-12, the first year of the major austerity cuts, and 2019-20, the council lost government funding in cash terms of more than £146m. According to government calculations, lost spending power exceeded £85m during the same period. Neither of these figures allowed for the real terms impact of price and demand pressures. In addition, the council has committed to priorities that have needed to be funded through a limited number of sources. During this period the council has also looked to keep council tax as low as possible, protecting the most vulnerable. Southwark remains the eighth lowest council tax rate in London.
13. The recently updated Borough Plan is the council's overarching business plan. The Borough Plan contains a range of promises and commitments which the council has worked towards since 2018. These plans have recently been reviewed and refreshed in light of the changing environment we operate in, not least as we begin to emerge from the pandemic.
14. Council Assembly of 24 February 2021 approved a balanced budget and council tax for 2021-22. This was a one year budget due to the uncertainty around future funding.
15. This report notes the current position with regard to the funding of the Council and presents a draft set of refreshed Fairer Future Budget Principles aligned to the updated Borough Plan.

KEY ISSUES FOR CONSIDERATION

16. This report sets out an initial financial outlook for 2022-23. There continues to be great uncertainty, both with respect to central government funding and in terms of the economy as a whole as the impact of a year of lockdown starts to become apparent.
17. Whilst central government funding has broadly covered pandemic costs to-date, it is unclear how long this will continue for. If the re-opening of the economy is slower than anticipated and national employment rates continue to decline or stagnate then a resulting recession could have serious implications for the council's income streams. The cessation of the furlough scheme in September could add further pressure to the council's support services.
18. The postponement of funding reforms and the absence of government spending plans mean that there is maximum funding uncertainty, making the preparation of medium-term financial plans highly complicated and speculative. Whilst this report covers the year 2022-23, it is anticipated that future reports this year will include a longer-term view as and when sufficient information becomes available.
19. The Spending Review which sets out the overall quantum of central government

funding to local government took place in November 2020 and, whilst broadly neutral, relied heavily on the assumption that local councils will continue to raise council tax. The Fair Funding Review and new funding baselines within a 75% business rates retention scheme were planned to be implemented by April 2021, however these have been delayed and no firm date has yet been given. Both could have serious implications for the council's finances in future years.

20. This financial remit report is therefore being compiled in a period of unprecedented financial uncertainty. The report considers the most likely financial position to be faced by the council in 2022-23.
21. At this stage the 'most-likely' budget scenario is based on the following assumptions:
 - That further comprehensive financial support will be provided by the government to support local authorities in respect of the pandemic
 - That the council's major revenue income streams (business rates, council tax, fees & charges and commercial income) will continue to be adversely impacted by the Covid-19 pandemic
 - Baseline funding will increase in line with inflation
 - the Fair Funding Review and 75% Business Rate Retention will not be implemented in April 2022
 - The major grant funding streams, i.e. Public Health Grant, Improved Better Care Fund and Social Care Grants will continue at 2021-22 levels
 - That, following the cessation of the New Homes Bonus scheme on 31 March 2021, the residual payments and any replacement scheme will result in a net grant reduction of around £3.5m
 - Business Rates reset will be postponed to April 2023. The council is likely to lose around £13m as a consequence of the Business Rate Baseline Reset mitigated by the use of reserves set aside for this purpose;
 - Subject to further analysis, net inflation and pay award pressures of £8m have been assumed in the most likely scenario
 - Increased debt financing costs arising from the approved capital programme and potential additional funding for investment projects (£2.5m in 2022-23)
 - Council tax increase in 2022-23 of 1.99%, with no changes in the local council tax support scheme; no additional adult social care precept has been assumed
 - Retaining the contingency of £4m within the overall budget to support in year cost pressures.

22. On the basis of the assumptions made at this time, it is estimated that net savings of £19.4m will be required in 2022-23.
23. These assumptions will be continually reviewed and updated as firmer information becomes available.
24. In the event of further clarity and greater certainty of government funding streams, we will need to develop our medium term budget plans and review any decisions previously made. Resetting the MTFs and managing risk will require careful attention following the pandemic and as we enter a period of recovery and renewal.

COVID-19 Pandemic financial implications

25. The Covid-19 pandemic continues to have a considerable impact on the council. The pandemic is hitting our residents, public institutions, businesses and voluntary and community organisations hard. It has required an unprecedented response to mobilise the resources, skills and good faith of many across the borough. We will continue to do all we can to support our residents, communities and local businesses, to keep key services running and ensure that those who need help get it.
26. The council has had to put considerable additional resources into services to ensure that the most vulnerable in our community are cared for and that the local economy is protected. The economic impact has been profound, and we continue to experience both additional costs and lost income across our services.
27. Whilst the initial financial impact of the pandemic has broadly been covered by central government funding, the medium and long-term liabilities remain a significant risk. The council has sought in recent years to build up its general reserve and financial risk reserves to ensure it is financially resilient. However, sustained disruption to our operating environment and the wider economy remains a reasonable probability and the organisation will need to remain vigilant and proactive in its approach to dealing with emerging risks.
28. The council has already begun to adapt to the changing environment and this is reflected both in the Borough Plan and also in service reviews, the medium term financial strategy and our capital investment priorities.

Local Government funding reform

29. It remains the government's intention to implement new funding baselines for all local authorities. The new baselines will be based on the government's review of local needs and resources (the Fair Funding Review), the introduction of 75% business rates retention and resetting business rate baselines. The last time the 'needs based assessment' was updated was for the 2013-14 settlement.
30. However, due to the pandemic, the Government announced that:
 - the review of relative needs and resource and the introduction of 75% business rates retention would no longer be implemented in April 2021 as planned

- the revaluation of business rates, due to take place in April 2021, will now come into effect in April 2023
 - the fundamental review of business rates is expected to be published in ‘autumn’ 2021.
31. Whilst the government’s stated intention is to implement funding reform with effect from 1 April 2022, this timeline seems ambitious in the current context (and given previous delays) and so the central budget forecast assumes a further delay to these plans. If the government consults on these changes in summer 2021, or provides clear a clear indication that implementation is imminent then the council will update its assumptions accordingly.

Spending Review

32. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements.
33. The 2020 Spending Review was reduced in scope due to uncertainty caused by the pandemic and covered one-year only (2021-22). Whilst the impact was broadly neutral for local government, the published 4.5% increase in spending power was largely dependent on the assumption of 5% council tax increases, placing additional financial burden on the taxpayer. As yet we have no indication of the likely settlement for 2022-23 and early visibility of local government funding would help local government plan and make effective decisions.

UPDATED FINANCIAL REMIT 2022-23

FUNDING FORECAST

34. The main funding sources for the council are:
- Settlement Funding Assessment (SFA) (comprising retained business rates, a top-up or tariff and Revenue Support Grant)
 - Core revenue grants;
 - Revenue funding from local taxation (council tax and retained business rate growth)
 - Fees and charges.
35. Reliance on locally generated resources has increased significantly since the new funding regime post April 2013. This means the council is far more exposed to the risks arising from income volatility, i.e. business rate growth and losses, council tax income and from fees and charges and commercial income.
36. The pandemic has had major financial consequences for income in 2020-21 and the impact of any continued economic downturn for future council income means the uncertainty of impact is elevated:
- Income collection rates have been significantly impaired in 2020-21 – is this a

deferment, a one-off loss or a continuing trend?

- Reduced tax base growth in 2021-22 – to what extent will this impact in the medium term and what is the speed of recovery?
- Increased council tax support for working age claimants – has this yet reached a peak, when and how long to recover?
- Fees, charges and commercial income – service income has been hit hard by the pandemic, what will be the speed of recovery and impact of post lockdown new normal?

37. The impact of funding reform adds further levels of uncertainty for medium term financial planning.

Settlement Funding Assessment (SFA)

38. Settlement Funding Assessment represents the core funding distributed by the government. It consists of Revenue Support Grant (RSG), the Business Rates Baseline and Business Rates Top-Up (or Tariff).

39. The forecast SFA is set out below:

	2021-22 Budget £m	2022-23 Forecast £m
Retained Business Rates (NDR Baseline)	-80.0	-81.2
Business Rates top-up	-35.9	-36.4
Revenue Support Grant	-36.6	-37.2
Total Settlement Funding Assessment	-152.5	-154.8

40. For 2021-22 the council was funded via a settlement funding assessment of £152.5m. The central case assumes the SFA will grow in line with inflation (our forecast 2%).

Revenue Funding from Local Taxation

41. Local government finance is increasingly dependent on locally generated resources, principally council tax and business rates but also income from fees and charges and income from investment property. Whilst this provides opportunities, it also exposes councils to significant risk in terms of delivering growth and volatility year-to-year, for example exposure to loss of income from business rates appeals.

Business Rate Retention

42. In addition to the retained business rate assumptions given by the government (the 'Business Rate Baseline'), authorities are able to generate additional resources through growth in the rateable value of business premises, above the baseline.

43. In the most likely scenario, it is forecast that business rate income will reduce by £1.9m, recognising the significant impact of the pandemic. This means that the council expects to benefit from £17m of growth in 2022-23 (£18.9m in 2021-22).

Council Tax

44. Council tax income for 2021-22 is budgeted at £123m including a council tax increase of 1.99%. The council tax base has grown by over 20% since 2016-17 due to an increase in the number of homes, reduction in the cost of local council tax support and changes to the council tax on long-term empty properties.
45. In reviewing council tax income forecasts, major factors for consideration are:
- Increased take up of working age council tax support. This is likely to be a significant factor in council tax income losses. Claimant numbers have increased significantly and it is likely that numbers will continue to grow over the coming months. Further work will need to be undertaken to model the impact and forecast how quickly the numbers will reduce
 - Impact on collection rates. Council tax collection was adversely impacted in 2020-21. The extent to which these losses are recoverable and any longer term effect on collection rates remains to be seen.
 - The ongoing economic impact of the pandemic, plus the planned cessation of the furlough scheme in September will likely necessitate increased bad debt provisions and write-offs.

These factors will need careful scrutiny and review over the coming months.

46. In the context of the serious strains on council funding and the government assessment of individual authorities spending power (which assumes councils will increase council tax each year in line with referendum principles) for planning purposes an assumption of a 1.99% council tax increase has been assumed in the most likely scenario.

Adult Social Care Precept

47. Since 2016-17 councils responsible for social care have been given the power to raise a social care precept. A 2% ASC precept was applied in 2016-17 and 3% in 2017-18 and 2018-19, 2% in 2020-21 and 3% in 2021-22 in order to continue to protect services for our most vulnerable residents. The additional funds bring the total value of the Adult Social Care precept to over £13m per annum.
48. The long awaited white paper on the future of Adult Social Care (and its integration with Health) has now been published. The government has stated its intention to implement some of the legislative proposals during 2022 and this was reiterated at the Queen's Speech in May 2021. Officers will keep developments under review throughout this process to ensure any potential financial or operational impacts are reflected in our plans.

Collection Fund surpluses and deficits

49. The pandemic has seriously impacted on business rate and council tax income in 2020-21 and this seems likely to continue well into 2021-22. Any deficit on the collection fund in 2021-22 would normally be charged to the budget in 2022-23 and 2023-24. Whilst some of the deficit will be offset by government funding and

compensation schemes, legislative provision has been made to enable the spreading of any remaining deficits over a three year period.

London Business Rates Pooling Pilot

50. The council joined the London Business Rate Pool pilot arrangements for financial years 2018-19, 2019-20 and 2020-21.
51. The financial benefit of the pooling arrangement meant that 100% of business rate growth in 2018-19 and 75% of growth in 2019-20 was retained within London. The 2020-21 pooling arrangement was based on 67%. The council has received a share of the pool benefits (one-off resources in 2018-19, 2019-20 and 2020-21) for investment in initiatives set out in the February 2021 budget report.
52. In light of the unprecedented circumstances and significant financial risk presented by the economic environment anticipated in 2021-22, the business rate pool in London has been stood down. Whilst the financial and other benefits prior to this had been very clear, it was apparent that the continuation of the pool into 2021-22 could actually impair the finances of individual councils and London as a whole. No decision has yet been made with regard to restarting the pool in 2022-23 and subsequent reports will provide updates on this as and when information and modelling are available.

Core Grants

53. In addition to baseline funding and revenue funding from local taxation, the council also receives a number of grants which the government includes in their presentation of local authority core Spending Power.
54. The forecast core grants are set out below:

	2021-22 Budget £m	2022-23 Foreca st £m
Public Health Grant	28.698	28.698
Section 31 Grant - outside of growth calculation	7.517	7.517
New Homes Bonus - residual	8.201	3.697
New Homes Bonus - replacement scheme (tbc)	0.000	1.000
Improved Better Care Fund	17.323	17.323
Social Care Support Grant	13.199	13.199
Lower Tier Services Grant	1.264	1.264
Total	76.203	72.698

55. Grants within Core Spending Power:
 - New Homes Bonus. New Homes Bonus (NHB) is intended to incentivise

housing growth and rewards housing delivery – Southwark is due to receive £8.2m in 2021-22. The Government has announced that the scheme will not continue its current form and NHB payments in 2021-22 and 2022-23 will be legacy payments for previous growth only. We await confirmation of any follow-on scheme. The most likely scenario assumes a reduction of £3.5m.

- Improved Better Care Fund (IBCF). The improved Better Care Fund is made up of two parts, that which was initially included as part of the 2016-17 settlement and the supplementary funding announced as part of the spring 2017 budget. The utilisation of the supplementary grant has been agreed with the Health and Well Being Board for adult social care funding pressures. It is assumed that this funding will continue at the same level.
- Social Care Support Grant. As part of the autumn 2018 Budget the Chancellor announced additional grant funding for Social Care and winter pressures. This funding has now been combined as the Social Care Support grant and it has been assumed to continue at current level.
- Section 31 Business Rates compensation grant. The statutory arrangements for business rates retention means that the government must compensate councils for the loss in rate (under Section 31) arising from Government Budget or policy decisions, for example decreases in yield from transitional relief and other discounts. Estimates have been included based on latest returns and any future announcements should be neutral. This grant would likely end at any business rate reset and be subsumed within updated business rates baselines.

56. Grants outside of Core Spending Power:

- Public Health Grant. Alongside the finance settlement, the government publishes the Public Health allocations. Southwark's allocation for 2021-22 was £28.698m. Prior to 2020-21, Public Health grant had reduced year on year since 2015-16. As part of the move to 75% BRR, Public Health Funding is likely to be incorporated into baseline funding. It has been assumed that the Public Health grant will continue in 2022-23 at the same amount as in 2021-22.
- Better Care Funding. The grant is distributed as part of the NHS funding allocation and its use agreed with the Health and Well Being Board. The continuation of the funding was due to be considered as part of the Spending Review. It has been assumed that this will continue at the same amount as in 2021-22.

Fees and charges

57. The council will seek to generate additional income by reviewing discretionary fees and charges and opportunities to increase other commercial income. In accordance with the council's agreed policy, fees and charges are reviewed annually to increase them to a level that is at least equal to the most appropriate London average, except where this either conflicts with council policy, or would lead to adverse revenue implications or would impact adversely on vulnerable clients. Updated fees and charges will be presented for Cabinet approval in January 2022.

58. Income from fees and charges and commercial rental income have been significantly impacted as a result of the pandemic. In some areas the impact is likely to endure, for example leisure services.

Cost pressures 2022-23

Inflation and Pay Costs

59. The Office of Budget Responsibility forecast that CPI inflation will be around the 2% target. The pay settlement for 2022-23 has yet to be agreed, an assumption of a 1% increase to the total pay bill was included in 2021-22. An assumption of 2% per annum has been included for 2022-23.
60. Therefore, this (most-likely) forecast recognises £8m of inflationary increases linked to both pay increases and contractual inflation in 2022-23.
61. This ongoing move to self-sufficient local government demonstrates the importance of Southwark's capital investment programme within the borough, either as the lead authority or with partners. Growth is the key to ensuring sustainable budget sources as we move closer to reliance wholly on local taxation, either through business rates or council tax as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements. This will be particularly challenging as a consequence of the pandemic and the recession.
62. Capital investment is either funded immediately from available capital resources, (e.g. capital receipts or capital grants and contributions) or financed from borrowing (internal or external borrowing). The cost of servicing that debt is charged to the revenue budget over periods commensurate with the period that the investment provides benefits. The most-likely budget forecast includes an increase in debt financing costs of £2.5m in 2022-23 arising from the exiting capital spending plans and assumed further spending on investment projects.

Risks to delivery

63. The Policy and Resources Strategy covers a wide range of services and plans of the council. It is natural therefore that circumstances and policies can change and develop over time, and the plan has to be based on broad forecasts for later years where decisions have yet to be taken.
64. The council's current and future financial position is subject to a number of risk management processes, and the financial risks affecting the council are captured in the council's risk assessment including:
- Impact of Covid-19 pandemic and recovery and renewal
 - Changes in local government funding may compromise future service delivery
 - Changes to the business rate retention scheme and any shortfall in business rate recovery will directly impact the council

- The substantial commitment within the 10 year capital programme is not matched by resources
- Due to unprecedented financial pressures, the council's financial balances fall below an acceptable level affecting the council's flexibility
- Future budgets for the council are not sufficiently robust - especially in light of the pandemic, the current economic climate and future funding changes - resulting in restricted council resource and risk of service failure, increased external scrutiny and reputational damage.

65. All risks are subject to regular review. In additional, financial management and monitoring continues to be undertaken on a risk-based approach, with focus on those budgets which are subject to fluctuating demand.

66. It is recognised that the integrated efficiency plan carries a number of significant risks. Delivery of the annual programme of efficiencies, savings and income targets will be difficult, but failure to implement these will inevitably require the council to consider even more difficult decisions.

Macro-economic risks

67. Wider macro-economic risks over which the council has no control, but which may impact on finances include;

- Ongoing economic downturn in the wake of the world-wide pandemic and continued disruption to transport logistics and supply chains
- Rising inflation
- Medium term implications of exiting the European Union.

Demographic Pressures

68. The council faces demographic growth pressures and changes in the population profiles which results in both additional numbers of referrals and increased levels of need.

69. Temporary Accommodation and No Recourse to Public Funds services are demand driven and have become an increasing pressure on council resources. Caseload remains high with a current upward demand trend.

70. Public Health pressures remain, particularly in sexual health services.

71. Within the ring-fenced DSG, High Needs cost pressures continue with rising costs in placements and related transport and increasing demand in services for young people over 16 years old.

Reserves

72. As at 31 March 2021 the council had unallocated general fund reserves of £22.3m and net earmarked reserves of £202m, including a negative reserve for DSG high needs.
73. The net earmarked reserves are maintained to fund:
- invest to save opportunities, which, for example, form part of the modernisation agenda and are expected in part to deliver future ongoing net revenue savings
 - investment in regeneration and development where spend may be subject to unpredictable market and other factors
 - exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme
 - Ongoing cost and income pressures arising from the pandemic.

Any application of these reserves for budget pressures will necessitate reductions in the programmes of work to be funded from them.

74. General Fund balances may be available in the short term to support the costs of the pandemic but use of these reserves will compromise financial resilience and will need to be maintained at existing levels over the MTFS period. Currently this period is constrained by the level of uncertainty created by lack of information on government funding sources. These remain critical to the council's policy and resources strategy. In recent years this strategy has necessarily been restricted to one year periods. Any use of General Fund balances by implication compromises the budget setting process for future years.
75. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. Reserves play a crucial role in good public financial management. They exist so that the council can invest in service transformation for the future or else allow them to respond to unexpected events or emerging needs. Excluding capital and technical sums such as insurance, usable revenue reserves amount to only a fraction of the council's turnover.
76. The legal requirement that a revenue budget deficit is not permissible when it cannot be covered by revenue reserves applies to any future financial year and not the just the current year. Reserves are one-off resources, they can only be spent once, while service demands will continue year on year.
77. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one off contributions to the budget are appropriate and affordable.

Next Steps

78. The main governance steps to establishing the 2021-22 general fund revenue budget are outlined in the table below:

Date	Meeting	Purpose
June	Cabinet - Budget Remit Report	High-level scene setting, initial forecast of the budget challenge and outline of 2022-23 Budget Challenge process
Summer	Strategic consideration of challenges and opportunities - Strategic Directors/Cabinet Members Cross-cutting themes	
September	Cabinet - Updated P&R Strategy	Update the financial remit and confirm the size of the budget challenges facing the council in the period to 2022-23 to 2024-25
October	Budget Challenge Round 1	
November	Cabinet - Updated P&R Strategy	To provide an update (if necessary) to include details of any government funding announcements/Spending Review
	Budget Challenge Round 2	
December	Cabinet - Updated P&R Strategy	To provide options for meeting the budget challenges over the next three financial years
	Cabinet - Council Tax Base	To confirm the council tax base that will apply for 2022-23
January	Cabinet - Updated P&R Strategy	To select proposed solutions for meeting the budget challenge
January	Overview & Scrutiny	Comment on and make recommendations in respect of the cabinet's proposed 2022-23 budget and indicative budgets for future years
February	Cabinet - P&R Strategy	Recommend to Council Assembly balanced budget for 2022-23
	Council Assembly	Council Tax setting and approve a balanced budget for 2022-23 and agree indicative budgets for 2023-24 and 2024-25

Community impact statement

79. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and advance equality of opportunity and foster good relations between different groups.
80. Transparency and fairness form part of the budget principles and are an underlying principle in the Council Plan. As with the budget for 2021-22 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts, more detailed analysis is being carried out.
81. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any crosscutting and organisation-wide impacts.
82. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
83. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, the impact on any specific section or group in our community comprising any protected characteristics, of any changes to services arising from these proposals will be carefully analysed. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses will be collated across the council to look for any cumulative impacts.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

84. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has a legal obligation to set a balanced budget on an annual basis as prescribed in the Local Government and Finance Act 1992 and associated Regulations. The issues contained in this report will assist in the future discharge of that obligation.
85. The council is required under section 149 of the Equality Act 2010 to have due regard to the need to:

- Eliminate unlawful discrimination harassment and victimisation
- Advance equality of opportunity between people who share protected characteristics and those who do not
- Foster good relations between people who share protected characteristics and those who do not.

86. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.

87. Equality analysis is the mechanism by which the council considers these effects. The report sets out how it is proposed equality analysis will be undertaken in relation to the budget proposals.

88. It is essential that cabinet give due regard to the council's duty under the Equality Act 2010 and the implications for protected groups in the context of that duty in relation to this decision and future decisions on the budget proposals.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No:	Title
Appendix 1	Draft Fairer Future Budget Principles

AUDIT TRAIL

Cabinet member	Councillor Rebecca Lury, Finance, Performance and Democracy	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Timothy Jones, Departmental Finance Manager	
Version	Final	
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Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
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