

## CABINET MEETING – 13 OCTOBER 2020

### EXECUTIVE SUMMARY SHEET- PART I

**Title of Report:**

Budget Planning Framework and Medium Term Financial Plan 2021/2022 – 2024/2025

**Author(s):**

Executive Director of Corporate Services

**Purpose of Report:**

This report:

- Identifies the key factors influencing the development of the Council's financial plans into the medium term and sets out the budget planning framework for the Council for 2021/2022;
- Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2021/2022 to 2024/2025; and
- Sets out the consultation / communication strategy for the budget 2021/2022.

**Description of Decision:**

Cabinet is recommended:

- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2021/2022 to 2024/2025 will be presented to Cabinet in February 2021;
- To approve the proposed Budget Planning Framework set out at section 4 of the report which will guide the preparation of the Revenue Budget for 2021/2022; and
- To approve the consultation / communication strategy for the budget 2021/2022 as set out at section 6 of the report.

**Is the decision consistent with the Budget/Policy Framework?**

Yes, it is seeking to inform a future decision to change the Budget and Policy Framework for 2021/2022

**Suggested reason(s) for Decision:**

- Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2021/2022; and
- To enable constitutional requirements relating to the development of the Revenue Budget to be met.

**Alternative options to be considered and recommended to be rejected:**

There are no alternative options recommended for approval.

<b>Impacts analysed:</b>	
Equality <input checked="" type="checkbox"/>	Privacy <input checked="" type="checkbox"/> Sustainability <input checked="" type="checkbox"/> Crime and Disorder <input checked="" type="checkbox"/>
<b>Is the Decision consistent with the Council's co-operative values?</b>	Yes
<b>Is this a "Key Decision" as defined in the Constitution?</b>	Yes
<b>Is it included in the 28 day Notice of Decisions</b>	Yes

**BUDGET PLANNING FRAMEWORK AND MEDIUM TERM FINANCIAL PLAN  
2021/2022 – 2024/2025**

**Executive Director of Corporate Services**

**1. Purpose of Report**

**1.1 This report:**

- Identifies the key factors influencing the development of the Council's financial plans into the medium term and sets out the budget planning framework for the Council for 2021/2022;
- Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2021/2022 to 2024/2025; and
- Sets out the consultation / communication strategy for the budget 2021/2022.

**2. Description of Decision**

**2.1 Cabinet is recommended:**

- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2021/2022 to 2024/2025 will be presented to Cabinet in February 2021;
- To approve the proposed Budget Planning Framework set out at section 4 of the report which will guide the preparation of the Revenue Budget for 2021/2022; and
- To approve the consultation / communication strategy for the budget 2021/2022 as set out at section 6 of the report.

**3. Medium Term Financial Plan 2021/2022 to 2024/2025**

- 3.1.** The MTFP 2020/2021 to 2023/2024 was approved by Council in March 2020 as part of the 2020/2021 budget setting process. The plan is continually updated to reflect changing circumstances and latest known information. The full MTFP 2021/2022 to 2024/2025 will be presented to Cabinet in February 2021.
- 3.2.** Key points to note which impact on the Budget Planning for 2021/2022 and beyond are set out at section 3.3 to 3.11 below.
- 3.3.** National and Economic context to the 2021/2022 budget
- 3.3.1** The Chancellor delivered his 2020 budget in early March against the backdrop of the global outbreak of Covid-19 and the subsequent pandemic. Whilst the budget set out a plan to support public services, individuals and businesses that may be affected, the subsequent lockdown announcement on the 23 March, and the wider economic consequences that have entailed have required additional financial support. This has had a significant impact on UK finances with the Government's debt exceeding £2 trillion for the first time and borrowing at its highest ever peacetime level.

- 3.3.2 UK Gross Domestic Product declined significantly as the lockdown measures impacted, contracting 20.4% in the second quarter. Whilst it has subsequently recovered, growing 6.6% in July, the latest month available, it still remains 11.6% below pre-Covid levels. Hopes for a V shaped recovery appear optimistic with the recovery more reflecting a tick shape. The annualised Consumer Price Index also fell significantly in April and May, recovering to 1% in July, but falling to 0.2% in August as the Eat Out to Help Out scheme pushed down prices in restaurants and cafes.
- 3.3.3 Whilst the Government's furlough scheme had partially mitigated the financial impact of the Covid-19 pandemic on those individuals covered by the scheme, the number of people in employment still fell by 730,000 between March and June. The full impact on UK employment is unlikely to be known until after the furlough scheme ends in October and the Jobs Support Scheme begins.
- 3.3.4 In response to the pandemic the Bank of England's (BoE) Monetary Policy Committee voted to reduce the Base Rate to 0.10% and expand the Quantitative Easing programme to support economic recovery. The BoE indicated further support would be forthcoming as, when or if required.
- 3.3.5 In addition to the Covid-19 pandemic, there remains significant uncertainty as to the outcome of Brexit negotiations and the economic risk of a No Deal scenario.
- 3.3.6 It looks increasingly likely that the Chancellor will delay the Budget until 2021. This will give the first clear indication of the Government's overall objective for public finances including how it proposes to address the debt position whether through tax rises or spending reductions.

#### **3.4. Central Government Funding for Local Government**

- 3.4.1 Having delayed the Comprehensive Spending Review, the Government opted to produce a one-year Spending Round to confirm departmental budgets for the 2020/2021 financial year. At this stage a multi-year spending review is planned to conclude in the Autumn, determining the amount of money Local Government will receive over the period. However, should the budget be delayed then the Spending Review may also be delayed. Regardless, only a one-year funding settlement is expected for Local Government, again providing limited certainty for the Council.
- 3.4.2 The delayed Fair Funding Review and move to a 75% Business Rates retention model were also due to be implemented in 2021/2022. However, the current Covid-19 pandemic has limited Central Government's ability to progress this significant change and this has been further pushed back again until 2022/2023. There remains the possibility of further delay given a change of this magnitude may require a more settled and consistent level of Business Rates and Council Tax to feed into the model, and this may not be possible given the current Covid-19 uncertainty.

3.4.3 One of the consequences of this delay is the accumulated Business Rates growth within the current system that should have been redistributed into a new baseline when Fair Funding and 75% Rates Retention was introduced. This funding currently resides with those authorities generating this growth rather than being redistributed as part of a baseline reset. It is expected that a redistribution would benefit Sunderland, all other things being equal.

3.4.4 This position was specifically acknowledged by the Secretary of State in a written statement to Parliament in April detailing Local Government finances:

“The Government will work closely with local councils as it determines how best to treat accumulated Business Rates growth and the local government finance settlement in 2021-22.”

The position will be kept under review; at this stage the position is too uncertain to specifically include within the MTFP. The Council will, as and when required, make the case for redistribution of this growth.

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

3.4.5 Given the delay in the implementation of the 75% Business Rates Retention Scheme, RSG will be retained in 2021/2022. Pending any formal announcement on inflationary increases, the MTFP assumes a standstill settlement in cash terms for 2021/2022.

#### **Social Care Funding**

3.4.6 Members may recall that the 2020/2021 settlement allowed for the continuation of a number of previously one-off Social Care grants and significantly a new Social Care Support Grant. This additional funding, whilst welcome, fails to provide both the certainty and level of funding required to meet the continued pressures being experienced within Social Care, exacerbated by the current pandemic. A long term, and sustainable solution is required. Pending any further announcements both in terms of inflation and / or additional grant allocation, the MTFP assumes a rolled forward position in cash terms.

#### **Public Health Funding**

3.4.7 It was envisaged that Public Health would be rolled into the overall Council funding position following the Fair Funding Review, with the risk that the Council would lose significant funding should the Government accept the Advisory Committee on Resource Allocation (ACRA) methodology for distributing these funds. In light of the delay in implementing the Fair Funding Review, and any announcements on inflation for 2021/2022, the MTFP assumes a rolled forward position in cash terms.

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

3.4.8 As previously advised the Government is phasing out NHB with existing legacy payments coming to an end over the next two years. The 2020/2021 budget includes legacy payments of £2.070m which will reduce to nil by 2023/2024. The impact on the budget for 2021/2022 is £0.631m.

3.4.9 The Spring consultation on a replacement for NHB was cancelled given the pandemic situation. At this stage it is therefore uncertain how the balance in funding within NHB will now be distributed. However, a redistribution in line with baseline funding may assist the Government in its “levelling up” ambitions as well as providing additional support to Upper Tier authorities to meet Social Care demands. As such at this stage, the MTFP allows for a redistribution based on the baseline formula which provides for an additional £3.243m of funding. There does, however, remain significant risk in this regard.

### **Other Government Grant funding streams**

3.4.10 Other Government grants are not anticipated to be confirmed until the Provisional Local Government Settlement is announced in December 2020. However, planning assumptions are currently:

- The Business Rates multiplier and Top Up grant is anticipated to increase in line with inflation (CPI).
- Housing and Council Tax Benefit Administration and Local Council Tax Support Administration Grant - No announcement on future funding has been made to date. Provision for a further reduction in funding consistent with previous years has been included within the planning for 2021/2022 to 2024/2025.

### **Schools Funding / Special Education Needs**

3.4.11 The Education and Skills Funding Agency (ESFA) have announced provisional allocations through the schools, high needs and central services funding blocks. Overall the Dedicated Schools Grant (DSG) will increase by £2.2bn; £730m of this is being directed to the High Needs Block. As part of the settlement the minimum per pupil funding levels will be set at £4,180 per primary pupil, £5,215 per KS3 pupil and £5,715 per KS4 pupil. These increases do, however, include funding previously received through the Teachers Pay Grant and the Teachers' Pension Employer Contribution Grant which have been rolled into the National Formula Funding.

3.4.12 For 2021/2022, each local authority will continue to set a local schools funding formula, in consultation with local schools. Later this year the ESFA will put forward plans to move to a 'hard' National Funding Formula in the future, which will determine school funding allocations directly at a national level, rather than local funding formulae.

3.4.13 It is currently anticipated that the ESFA will publish the provisional National Funding Formula allocations at local authority and school level in October 2020 with final DSG allocations published in December 2020.

## **Summary Funding Position Over Medium Term**

- 3.4.14 Based on the indicative funding allocations detailed above, Government funding is forecast to increase by circa £3.296m in the year 2021/2022, mainly in relation to redistributed NHB funding. The position on Government funding beyond then is more uncertain, with the assumption at this stage, that the Government will ensure at worst a broadly status quo position is maintained upon implementation of Fair Funding and the 75% Business Rate Retention Scheme.

### **3.5. Provision for Spending Pressures and Commitments 2021/2022 to 2024/2025**

- 3.5.1 In addition to funding changes, the Council must also plan for a range of spending pressures and commitments which are not funded by the Government.
- 3.5.2 It is proposed to reflect the following spending commitments in the budget planning, noting that in a number of cases specific cost details still require finalisation and will be subject to review and refinement throughout the budget setting process:

#### **Pay and Prices**

- 3.5.3 At this stage, no formal pay offer has been made for 2021/2022 or future years. Pending a formal offer, the impact of a 2% pay award has been factored into the budget planning reflecting recent years awards, but also the Chancellor's desire for pay restraint in the public sector. As most pay budgets now reflect provision for "top of the grade", no provision is set aside for pay increments. The position will be kept under review throughout the budget process.
- 3.5.4 Provision is included within budget planning for the impact of general contract inflation, including on contracts, utilities, any impact of the National Living Wage and significantly the Council's commitment to the Real Living Wage for contractors. This includes contract inflation for both Sunderland Care and Support (SCAS) and Together for Children (TfC).
- 3.5.5 Provision for an inflationary increase in discretionary fees and charges has been included within budget planning. An updated schedule of fees and charges for 2021/2022 will be published prior to the 30 September 2021 in line with the fees and charges policy.
- 3.5.6 A small number of minor pressures identified during routine budget monitoring have been included within pay and price provision.

#### **Spending Pressures**

##### **Adults Demand Pressures**

- 3.5.7 Pressures in both the NHS and Adult Social Care continue with the number of older people requiring care increasing. In Sunderland, it is forecast that the number of older people aged 65 years and over will rise from around 54,500 in 2019 to 70,200 by 2035 (an increase of 29%) and the number of people aged 85 years and over (i.e. those with the greatest care needs), is forecast to rise from around 6,100 in 2019 to 10,000 in 2035 (an increase of 64%). This gives a sense of the mounting pressure that Sunderland's ageing population is likely to have on the delivery of Adult Social Care.

- 3.5.8 The increasing longevity of the population continues to place a significant pressure on Adult Social Care budgets. In addition, client expectations and increasing demand to support clients with complex needs to enable them to maintain independent living requires reconfigured services and additional investment. Sunderland Clinical Commissioning Group (SCCG) have established an alliance to deliver integrated community care in Sunderland. Commissioners (SCCG and the Council) and providers have worked collaboratively to develop the alliance approach for Sunderland.
- 3.5.9 Demand for social care packages to support hospital discharges has increased significantly over recent months due to the Covid-19 pandemic, and this is likely to continue given the national focus on delayed transfers of care and the Council's aim to maintain its high level of performance.
- 3.5.10 As referred to in section 3.5.4, the National Living Wage represents a significant cost pressure for councils as service providers, particularly in the social care sector, endeavour to recover the impact of these increased costs through annual inflationary uplifts to contract prices. Prudent provision has been included within the budget planning in relation to assumed increases.
- 3.5.11 The publication of the Adult Social Care Green Paper has been delayed several times. However, the Green Paper has now been abandoned and instead a cross-party consensus on reforming social care funding will be developed during the next year or so. Any further delay will significantly impact on councils' abilities to plan ahead. There is still no clear indication of the shape of reform, with many options been being considered.
- 3.5.12 Provision for additional increased Adult Social Care of £1.000m relating to demand has been included in the MTFP and will be kept under review.

#### Childrens Demand Pressures

- 3.5.13 The contract price agreed for the provision of Children's Services with TfC includes provision for annual inflationary increases which has been included within pay and prices within the budget planning.
- 3.5.14 The Covid-19 pandemic has impacted upon the delivery of Children's Services nationally. As well as the direct Covid-19 costs from cleaning, PPE and provider support, further impacts have included delays in discharging Orders in court, price increases for placements for cared for children, high risk cases of large sibling groups becoming looked after and increasing family hardship. This has put pressure of approximately £1.500m, on the placement budget and the associated costs of looking after children. Despite that pressure there has been an increase of only 23 children in the Cared for Children cohort since 16 March 2020, which doesn't take account of a number of children waiting to have their Orders discharged.
- 3.5.15 Building on efforts to grow their own workforce, TfC have continued recruitment of newly qualified Social Workers throughout lockdown and post-qualified Social Workers have also now taken up substantive posts. This has reduced TfC's current agency Social Worker headcount to just one.



3.5.16 Given the challenging circumstances a sum of £0.500m for Children's Social Care pressures is also included at this stage. This allocation will be kept under review as the budget process progresses.

#### Other Pressures

3.5.17 The Council is ambitious and investing in the City is a key element of how the City Plan will be delivered. It is important that the capital programme is affordable, and that the ongoing costs of funding capital activity are included in the revenue budget. A review of this budget, recognising delays and rephasing of the capital programme in the light of Covid-19, in addition to a well performing Treasury Management function has enabled a temporary one-off reduction to this budget in 2021/2022. It should be noted that the current additional provision of £9.000m over the period of the MTFP covers the currently approved capital programme schemes only and as such does not include any additional borrowing costs that may arise for new capital scheme approvals during the MTFP period.

3.5.18 The Triennial Actuarial review of the Local Government Pension Scheme was concluded by March 2020 leading to a budget saving of £9.450m in 2020/2021. Given the economic uncertainty, at this stage the MTFP reflects a reversal of this improvement at the next triennial review, with a £10.000m pressure being included for 2023/2024. The position will be kept under review and factored into the Budget Planning Framework as it becomes more certain.

3.5.19 The Council's current Materials Recovery Facility contract which processes all blue bin kerbside recycling collected will expire in March 2021, after a 6-year period. Market awareness about the likely service cost in 2021/2022, taking into account gate fees paid by neighbouring local authorities, suggests that costs will increase substantially and that the income received from recycled materials will reduce, due to a fall in demand. This reflects a changing recycled commodity market over several years since the previous contract was let which is outside the control of the Council.

3.5.20 Through the South Tyne and Wear Waste Management Partnership, options to award a 12-month contract commencing April 2021 are being progressed. This will allow time to develop a new contract which shares risk and rewards allowing better value for money in the medium term and to allow the Council flexibility around understanding the implications of the 2023 Environment Bill Resources and Waste Strategy. This is anticipated to move some of the burden of collecting consumer packaging from councils to industry, through waste producer compliance schemes and deposit return schemes.

3.5.21 The financial implications for a 12 month contract commencing 1<sup>st</sup> April 2021 are that there will be a budget pressure of at least £0.700m per annum based on 2019/2020 (18,500 tonnes) recycling volumes. However, this may be as high as £1.200m, if the increased recycling collected during lock-down are replicated resulting in a 32% increase over the whole of 2020/2021 to 24,500 tonnes. At present a sum of £0.700m is provided for within the MTFP pending further certainty over tonnage levels.

3.5.22 The Council has, for a number of years, had a contractual arrangement with Gentoo for the repayment of overpaid Housing Benefit, whereby Gentoo took on the liability up to a certain threshold for recovery from its tenants. The transfer agreement allowed for these arrangements to be reviewed by both parties, which has now been undertaken. The contract review has amended the position with the Council, in line with other housing benefit overpayments, being responsible for recovery from 1 April 2021, with the financial impact of £0.600m being factored into the MTFP accordingly.

3.5.23 Members may recall the 2020/2021 budget allowed for £2.250m within contingencies for capacity to deliver change. This has been part utilised during the year as projects or ongoing pressures have been identified. However, in the light of the budget position, it is anticipated that £1.000m can be released from this fund, and a further £1.000m can be released from general contingencies to offset general spending pressures. The exact value and composition of contingencies will be determined later in the budget setting process when greater certainty on funding and spending pressures is available.

### Potential Covid-19 Pressures

3.5.24 At this stage the pace and extent of recovery from Covid-19 is unknown. However, the impact is expected to continue into 2021/2022 regardless of whether the country endures a second wave. The budget provision assumes that the majority of the short-term impact can either be overcome or mitigated sufficiently so as not to impact on the 2021/2022 budget. The MTFP does recognise that some additional costs may arise that will be permanent, notably with regards to leisure and rental income.

### Summary Spending Pressures and Commitments

3.5.25 A summary of the spending pressures and commitments set out in section 3.5 is set out below:

	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
<b>Spending Pressures and Commitments</b>					
Pay, Prices and Other Pressures including Contract Inflation	8.178	9.027	12.764	9.785	<b>39.754</b>
Neighbourhoods - Adults Demand Pressures	1.000	1.000	1.000	1.000	<b>4.000</b>
Together for Children - Demand Pressures	0.500	0.500	0.500	0.500	<b>2.000</b>
Capital Financing (Debt Charges)	(3.000)	6.000	3.000	3.000	<b>9.000</b>
Pensions Actuarial Review	0.000	0.000	10.000	0.000	<b>10.000</b>
MRF Waste Disposal	0.700	0.000	0.000	0.000	<b>0.700</b>
Housing Benefit Overpayment	0.600	0.000	0.000	0.000	<b>0.600</b>
Contingencies Review	(2.000)	0.000	0.000	0.000	<b>(2.000)</b>
Potential Covid-19 Pressures	4.200	(0.400)	0.000	0.000	<b>3.800</b>
<b>Total Spending Pressures and Commitments</b>	<b>10.178</b>	<b>16.127</b>	<b>27.264</b>	<b>14.285</b>	<b>67.854</b>

### 3.6 Summary Resources, Pressures and Commitments Position

3.6.1 The total of changes in resources and spending pressures represents the estimated gross funding gap. At this stage there remain significant uncertainties which include:

- The ongoing impact of Covid-19 pandemic on Council costs and income and the wider economic uncertainty this creates;
- Local Government Finance Settlement confirmation for 2021/2022, to confirm the actual individual Local Authority allocations. This is normally announced in December;
- Ongoing pressures around both Adult and Children's Social Care;
- Confirmation of delivery of existing savings plans assumptions;
- Going forward the impact of capital priorities both in terms of debt charges and any associated operational costs;
- The Government plans in relation to Fair Funding, Business Rates and the departmental spending review all impacting on 2021/2022 and beyond; and
- The general economic position and public sector finances (direct connectivity between the economy and public finances), including any potential impact of Brexit negotiations.

3.6.2 The savings requirement over the medium term therefore remains uncertain. However, based on the best information available at this time, further reductions to budgets are required through to 2024/2025.

	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
Government Grant Changes (as set out in section 3.4)	(3.296)	(1.785)	(2.032)	(1.308)	(8.421)
Total On-going Spending Pressures (as set out in section 3.5)	10.178	16.127	27.264	14.285	67.854
Initial Funding Gap	6.882	14.342	25.232	12.977	59.433

### 3.7 Previously Approved Savings Plans

3.7.1 As part of the previous year's budget process, there remains one previously approved proposal that impacts on 2021/2022 relating to a Trade Waste Permit Scheme. The details of this proposal, totalling £0.025m and within the Deputy Leader portfolio are included within 6.15 of Appendix A of item 6 of the Council agenda for 6 March 2019. There was no equality requirement associated within this proposal.

### 3.8 Locally Raised Income

#### Council Tax

- 3.8.1 The Localism Act provides for the provision of referendums to veto excessive Council Tax increases. This effectively places a limit on Council Tax increases and if councils exceed the Government limits then the public are able to vote to agree or veto any increase.
- 3.8.2 In recent years Government funding calculations have reflected the assumption that councils will maximise their ability to increase Council Tax, including levying the Social Care Precept introduced in 2016/2017.

- 3.8.3 To date there has been no clarity as to the potential limit for Council Tax increases for 2021/2022. As is customary the Government will consult on Council Tax referendum principles as part of the Local Government Finance Settlement.
- 3.8.4 Decisions on the level of Council Tax will be made as part of the final budget planning stages once all other funding factors are fully understood. However, at this stage, the MTFP allows for an increase of 2% in line with previous years increases. No increase in the Social Care Precept is assumed at this stage.
- 3.8.5 The impact of Covid-19 on Council Tax collection will have a significant impact into 2021/2022 in the following ways:
- Deficit - as set out in the 2<sup>nd</sup> Revenue review elsewhere on the agenda, a significant in year deficit is forecast in 2020/2021. This has arisen due to an increase in the numbers within the Local Council Tax Scheme, decreased collection generally and a slowdown in house building within the city compared to base assumptions. To date the Government has not provided any assurance that this deficit will be funded but have allowed Local Authorities to spread the cost of this deficit over a 3 year period. This approach is reflected in the MTFP.
  - Base Calculation - The impact of the pandemic has led to an increase in the numbers of local council tax support claimants that is likely to continue into 2021/2022. This combined with a likely slowdown in house building numbers and pressure on the overall collection rate (98.5% within base) has the potential to result in a decrease in the Council Tax base for 2021/2022.
- 3.8.6 It should be noted that there is significant uncertainty in this regard, not least the impact of the cessation of the furlough scheme and how this will impact on resident's ability to pay and numbers claiming under the Local Council Tax Support Scheme. An update will be provided in future reports.

### **Business Rates**

- 3.8.7 Under the current Retained Business Rates funding arrangement, the Council retains locally 49% of increased income arising from growth in the Local Business Rates base (equally it shares the risk of any under achievement of income targets). The Council has a relatively low Business Rates yield with the Government providing a top-up grant.
- 3.8.8 Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. However, there is continued uncertainty specifically around appeals and avoidance tactics which can impact on the level of income achieved. The most significant opportunity for Business Rates growth arises through new developments, although growth in Business Rates in our three Enterprise Zones will be accounted for separately, as this is used to support the investment in those sites.

3.8.9 As with Council Tax the impact of Covid-19 on Business Rates will impact into 2021/2022 both in terms of collectability as the economy recovers, but also in addressing the deficit position expected to materialise in the current financial year. To date the Government has not provided any assurance that this deficit will be funded but have allowed Local Authorities to spread the cost of this deficit over a 3-year period. The position will be kept under review and additional income reflected in the Budget Planning Framework as appropriate.

### 3.9 Remaining Budget Gap

3.9.1 After taking into account the information in sections 3.4 to 3.8, there remains a funding gap of £15.814m in 2021/2022, with £44.072m savings required to be identified over 2021/2022 and 2024/2025. It should be noted that final proposals in relation to any Council Tax and Social Care Precept increase will be considered as part of the final budget setting proposals in February 2021, once outstanding uncertainties have been clarified. This position is set out in the table below:

	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
<b>Total On-Going Funding Gap</b>	<b>6.882</b>	<b>14.342</b>	<b>25.232</b>	<b>12.977</b>	<b>59.433</b>
<b>Previously Approved Savings Plans to meet the Funding Gap</b>	<b>(0.025)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>(0.025)</b>
Assumed Council Tax Increase	(1.996)	(2.103)	(2.206)	(2.262)	<b>(8.567)</b>
Council Tax Deficit Impact	3.078	0.000	0.000	(3.078)	<b>0.000</b>
Council Tax Base	5.061	(3.874)	(3.050)	(0.594)	<b>(2.457)</b>
Business Rates Base Growth	1.500	(1.500)	(1.500)	(0.500)	<b>(2.000)</b>
Business Rates Inflationary Increase	(0.490)	(0.989)	(1.009)	(1.029)	<b>(3.517)</b>
Business Rates - reversal of surplus utilised 2020/2021	1.205	0.000	0.000	0.000	<b>1.205</b>
Business Rates Deficit Impact	0.599	0.000	0.000	(0.599)	<b>0.000</b>
<b>Current MTFS Gap after agreed savings proposals and assumed council tax increases</b>	<b>15.814</b>	<b>5.876</b>	<b>17.467</b>	<b>4.915</b>	<b>44.072</b>

### 3.10 Approach to addressing the funding gap

3.10.1 The Council's Efficiency Strategy was agreed by Council in March 2020. The Strategy set out a continual and iterative development of a programme of activity to address the gap taking into account the strategic vision of the Council's role in the future and reflecting the following key principles:

- Ensuring resources are targeted on statutory and front-line services and protecting key priority services with a focus on need rather than want;
- Managing demand - implementing strategies and policies that enable the Council to manage demand and facilitate those services which make a difference in the most effective way;
- Being customer focussed - using robust data and information to understand our resident's needs and maximising opportunities through use of technology for both our customers and internal users, so that people self-serve wherever possible thereby eliminating waste and duplication;
- Redesigning and reshaping services to deliver required outcomes in a value for money way which maximises productivity;
- Strategic commissioning based on outcomes and using an intelligence-based approach to ensure a sound evidence base for commissioning decisions and effective commissioning arrangements;

- Pressing forward with new models of service delivery that improve our commercialisation, to maximise income opportunities where there is a market and business case;
- Ensuring opportunities for collaboration with partners to deliver key outcomes that matter to the city;
- Ensuring that our internal, support services respond appropriately to the changing shape and size of the Council;
- Involving the Community – residents, businesses, partners, voluntary sector to ensure best outcomes for the city; and
- Continued focus on regeneration and inward investment in order to grow business rates and council tax income, leveraging funding to maximise additional income sources and commercial opportunities.

3.10.2 Given the Council's focus on the Covid-19 pandemic and associated recovery, to date firm plans have still being identified to address the gap. However, plans are in the development stage and are anticipated to be brought forward at a later stage in the budget planning process. Notwithstanding this, given the size of the gap, the uncertainty, both with regard to the Covid-19 pandemic and Government funding, it is anticipated that earmarked reserves are used to support the position in the short-term.

### **3.11 Reserves and Balances**

3.11.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when considering the budget requirement.

3.11.2 As set out in the 2<sup>nd</sup> revenue review elsewhere on today's agenda, a major review of reserves has been undertaken. This has enabled £8.918m to be freed up and moved into the MTFP Smoothing Reserve. In doing so this maximises the potential reserves available to support the budget over the medium term and in responding to the changing environment arising from the Covid-19 pandemic.

3.11.3 A Statement of General Balances is attached at Appendix 1a with a schedule of Earmarked Reserves as at the 2<sup>nd</sup> review at Appendix 1b.

## **4. Budget Planning Framework**

4.1 It is proposed the budget planning framework as set out below is adopted:

- Budget planning to be based on the high-level position outlined at section 3 and updated in light of the Local Government Settlement in December 2020;
- Provision for spending commitments be included at this stage on the basis set out at section 3.5 and kept under review;
- Spending priorities be considered in line with service improvement plans and in light of available resources during the budget process;
- Budgets be prepared on the basis that all spending pressures not specifically identified in this report as commitments be accommodated within Directorate existing budget envelopes;
- All commitments against reserves and general balances as set out in Appendix 1 to be reviewed and updated throughout the budget process; and
- The position regarding Council Tax and Social Care Precept to be considered as part of the budget process.

- 4.2 In accordance with the budget planning framework agreed for 2020/2021 the budget process will be completed on the basis that the saving plans in the 2020/2021 budget will be achieved, or an alternative must be delivered on an ongoing basis.

## **5 Workforce Planning Implications**

- 5.1 Following the review of previously agreed savings plans, it is expected that the remaining plans still to be implemented will not have any associated reduction in the workforce.
- 5.2 At this stage, given the remaining budget gap for 2021/2022 and future years it is anticipated that proposals may have a workforce planning implication. Any subsequent staffing reductions will be managed through the Council's Redundancy Policy and Procedure as necessary. It should also be noted that officers are continually reviewing resource allocations to ensure that staffing arrangements are fit for purpose.
- 5.3 At this stage it is proposed that any cost of redundancy payments and the release of pensions as required by the LGPS Regulations will be met from a combination of utilisation of capital receipts flexibilities (up until 2021/2022 only) and from within the overall corporate resource position at outturn each year, should the position allow. This position will be kept under review and updated as part of the Budget proposals to Cabinet.

## **6 Budget Consultation / Communication Strategy 2021/2022**

- 6.1 Communication and consultation are important parts of medium-term financial planning. A range of activity informs this process and has influenced the City Plan and the MTFP.
- 6.2 Each year, the scale and nature of the proposals determine the approach to communication and consultation. Although further work is required to generate savings for 2021/2022 and beyond, the budget consultation in 2020 will focus on feeling informed, the priorities within the City Plan and views on how Council budget priorities are allocated.
- 6.3 Clear messages focusing on the longer-term budget challenge, the scale of what we do and how the money is spent will accompany this consultation. The approach will be consistent with the successful Let's Talk initiative, tailored accordingly to the current pandemic situation.
- 6.4 Existing networks will be utilised to communicate with both geographic communities and communities of interest. There will be communications with a range of partners and stakeholders including Trades Unions, Chamber of Commerce, Sunderland Business Innovation District (BID), the wider business community, employees, and the city's Equality Forums and Independent Advisory Groups. Communications with these groups will be tailored to their interests, for example, economic regeneration, neighbourhood services and adult services.
- 6.5 Scrutiny Coordinating Committee will be consulted on the results of the budget consultation.

- 6.6 Feedback from consultation with Scrutiny Coordinating Committee, Trade Unions and Business representatives will be considered in framing the final budget proposals to be submitted to Cabinet in February 2021.

## **7 Crime and Disorder**

- 7.1 Consideration has been given to the options for savings about their potential impact on crime and disorder, (Section 17 Duty). No existing proposals have been identified as having a negative impact.

## **8 Equalities Analysis**

- 8.1 In accordance with the approach followed in previous years the Council continues to fully consider the impact of its plans by following a robust approach to equalities analysis. Appendix 2 sets out the approach adopted to the budget setting process.
- 8.2 Directorates must consider the equality impact of any new proposals brought forward to meet the future budget gap and complete equality analyses as appropriate. Completed equality analyses, considerations of potential impacts and a summary of the cumulative impact of proposals will be presented with future Cabinet reports
- 8.3 Members must understand the equality implications of the proposals, outlined in the equality analyses and at appendix 2 as having regard to them will assist members in complying with the public sector equality duty when considering the proposals.

## **9 Suggested Reasons for Decision**

- 9.1 Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2021/2022.
- 9.2 To enable constitutional requirements relating to the development of the Revenue Budget to be met.

## **10 Alternative Options to be considered and recommended to be rejected**

- 10.1 There are no alternative options recommended for approval.

## **Background Papers**

[Revenue Budget and Proposed Council Tax for 2020/2021 and Medium Term Financial Plan 2020/2021 to 2023/2024](#) (4 March 2020 Council).



**Statement of General Fund Balances**

	<b>£000</b>
<b>Balances 31st March 2020</b>	<b>12.000</b>
<b>Use of / Addition to Balances 2020/2021</b>	
Contribution to Revenue Budget	0.000
<b>Estimated Balances 31<sup>st</sup> March 2021</b>	<b>12.000</b>

Appendix 1b

Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Reserve Realign £m	Forecast Balance 31.03.2021 £m
General Fund	General Fund of the Council	12.000	0.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	7.982	(0.015)	0.000	7.967
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.188	0.000	0.000	9.188
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	9.254	(4.400)	0.000	4.854
Section 106 Reserves	Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.	7.280	(1.772)	0.000	5.508
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.545	(2.699)	0.000	1.846
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	1.194	(1.194)	0.000	0.000
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	1.153	(0.945)	0.000	0.208
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.737	(0.941)	(0.042)	0.754
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	11.769	(2.132)	(6.321)	3.316
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.000	(0.268)	0.000	9.732

## Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Reserve Realign £m	Forecast Balance 31.03.2021 £m
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.	12.146	0.000	0.000	12.146
COVID-19	A reserve established from government grant to fund the immediate costs and lost income associated with the COVID-19 pandemic.	10.592	(10.592)	0.000	0.000
Medium Term Planning Smoothing Reserve	This reserve has been established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government funding uncertainties.	6.528	0.000	8.918	15.446
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.677	0.000	0.000	5.677
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	4.280	(0.300)	0.000	3.980
HCA Stadium Park	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.109	0.000	0.000	3.109
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	3.303	0.000	0.000	3.303
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	2.151	(0.050)	0.000	2.101
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.577	(0.050)	0.000	1.527
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	1.916	0.299	0.000	2.215
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.334	(0.105)	0.000	1.229
House Sale Income	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.	1.236	0.000	0.000	1.236
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.198	0.335	0.000	1.533

## Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Reserve Realign £m	Forecast Balance 31.03.2021 £m
Children's Social Care	A reserve to fund any one-off Children's Social Care costs that may arise in the future.	3.000	0.000	0.000	3.000
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	(0.036)	0.000	1.217
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	19.229	(7.257)	(2.555)	9.417
<b>Total General Fund Reserves</b>		<b>154.631</b>	<b>(32.122)</b>	<b>0.000</b>	<b>122.509</b>
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	9.062	(4.447)	0.000	4.615
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	4.992	0.000	0.000	4.992
<b>Total Usable Reserves</b>		<b>168.685</b>	<b>(36.569)</b>	<b>0.000</b>	<b>132.116</b>

### Equality and Budget Proposals

#### 1 Equality in Decision Making

- 1.1 The Equality Act 2010 places a specific duty on Local Authorities through the Public Sector Equality Duty. The three aims of the equality duty are to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act;
  - Advance equality of opportunity between people who share a protected characteristic and those who do not; and
  - Foster good relations between people who share a protected characteristic and those who do not.
- 1.2 Public authorities are required to give 'due regard' to the three aims of the duty when making decisions. Understanding the effect of decisions on people with different protected characteristics is an important part of complying with the general equality duty. Due regard means:
- consider the need to remove or minimise disadvantage or to meet particular needs;
  - think about how to encourage participation in public life; and
  - tackle prejudice and promote understanding.

#### 2 How equality analysis informs the budget-setting process

- 2.1 Individual proposals for savings are reviewed to determine whether equality analysis is required. Where equality analyses are required, and negative impacts are identified, it is the responsibility of the services to minimise these as far as possible. A standard approach is taken each year to ensure:
- equality considerations are given to each new savings proposal;
  - proposals agreed in previous years are reconsidered to ensure planned equality analysis has been completed or refreshed, where appropriate; and
  - and where equality analysis is finalised, a sampled quality assurance process takes place to ensure the relevant considerations are being made in a thorough manner.
- 2.2 The detail of the analysis is dependent on the nature of the proposal and its stage of development. It also includes results from budget consultations, where appropriate. The consultation is also suitably tailored to the scale of the proposals and the approach is outlined at paragraph 6 of the main report.

**3 Key Messages for 2021/2022**

- 3.1 For 2021/2022 financial planning, there are no specific savings proposals brought forward to be considered in this report. However, as plans are identified to address the budget gap, equality implications will be part of the considerations.
- 3.2 As the report outlines above, there are a number of national and local issues that have the potential to impact on equality in the city, namely:
- The need for a long-term sustainable solution for social care;
  - The possibility of reduced funding for Public Health following the implementation of the Fair Funding Review;
  - The need to increase placement availability for looked after children; and
  - Focus on the Covid-19 pandemic and associated recovery.

As our local response to these issues is determined, equality considerations must be included. Future proposals in these areas must be done in a way that makes the most of opportunities to reduce inequalities in our city whilst mitigating negative impacts as far as possible.

**4 CONCLUSIONS**

- 4.1 The Council continues to seek to meet its obligations in relation to equality and diversity and has procedures in place at both a general and budget specific level to incorporate equality and diversity issues into decision making processes and the assessment of proposals.
- 4.2 Services and directorates are responsible for ensuring equality considerations are integral to their functions, and ensuring these considerations are presented to decision makers at the appropriate junctures.