

## CABINET MEETING – 7 DECEMBER 2021

### EXECUTIVE SUMMARY SHEET- PART I

**Title of Report:**

Budget Planning Framework and Medium Term Financial Plan 2022/2023 – 2025/2026

**Author(s):**

Executive Director of Corporate Services

**Purpose of Report:**

This report:

- Provide an update, since the Budget Planning Framework and Medium Term Financial Plan (MTFP) report to Cabinet in October 2021, on the key factors influencing the development of the Council's financial plans into the medium term;
- Sets out the updated headlines and context for the MTFP 2022/2023 to 2025/2026;
- Sets out provisional budget savings proposals for 2022/2023 to assist in meeting the current budget gap, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement for 2022/2023; and
- Sets out the consultation / communication strategy for the budget 2022/2023.

**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 2022/2023 to 2025/2026 will be presented to Cabinet in February 2022; and
- To approve the provisional additional budget savings proposals, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement for 2022/2023.

**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 2022/2023

**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 2022/2023; 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.

**Impacts analysed:**

Equality ☒ Privacy ☒ Sustainability ☒ Crime and Disorder ☒

**Is the Decision consistent with the Council's co-operative values?** Yes

**Is this a "Key Decision" as defined in the Constitution?** Yes

**Is it included in the 28 day Notice of Decisions** Yes

**BUDGET PLANNING FRAMEWORK AND MEDIUM TERM FINANCIAL PLAN  
2022/2023 – 2025/2026****Executive Director of Corporate Services****1. Purpose of Report****1.1 This report:**

- Provides an update, since the Budget Planning Framework and Medium Term Financial Plan (MTFP) report to Cabinet in October 2021, on the key factors influencing the development of the Council's financial plans into the medium term;
- Sets out the updated headlines and context for the MTFP 2022/2023 to 2025/2026;
- Sets out provisional budget savings proposals for 2022/2023 to assist in meeting the current budget gap, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement for 2022/2023; and
- Sets out the consultation / communication strategy for the budget 2022/2023.

**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 2022/2023 to 2025/2026 will be presented to Cabinet in February 2022; and
- To approve the provisional budget savings proposals, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement for 2022/2023.

**3. Medium Term Financial Plan 2022/2023 to 2025/2026**

- 3.1. The MTFP 2021/2022 to 2024/2025 was approved by Council in March 2021 as part of the 2021/2022 budget setting process. The plan is continually updated to reflect changing circumstances and latest known information. This report provides a further update on the MTFP since the Budget Planning Framework and MTFP report to Cabinet on 12th October 2021. The full MTFP 2022/23 to 2025/2026 will be presented to Cabinet in February 2022.
- 3.2. Key points to note since the October Cabinet report, including announcements in the Chancellor's Spending Review 2021, which impact on the Budget Planning for 2022/2023 and beyond, are set out in section 3 below.
- 3.3. National and Economic context to the 2022/2023 budget
- 3.3.1 Since the last update to Cabinet in October, improvements in the UK economy have allowed the Chancellor to announce some increases in government spending.
- 3.3.2 The Office for Budget Responsibility (OBR) announced improved growth forecasts (6.5% in 2021, followed by 6% in 2022), and is now expecting less permanent scarring to the economy from the pandemic, 2% instead of the 3% that was forecast in March 2021.

- 3.3.3 Unemployment is peaking at a lower level than anticipated. This gave the Chancellor more to spend, with local government being a beneficiary, alongside the NHS, schools and international development. At the same time, the Chancellor has also signalled that he wants to cut taxes towards the end of this parliament, indicating that any further improvement in the public finances is likely to be used for this purpose rather than further increases in government spending.
- 3.3.4 There are still significant economic risks to be managed. The Chancellor began his Spending Review announcement by outlining the continued inflationary pressures within the economy, with the OBR forecasting that inflation will continue at 4% over the next year. The Chancellor reaffirmed his commitment to managing inflation, with a letter sent to the Bank of England confirming the 2% inflation target.
- 3.3.5 There were no major taxation announcements in the Spending Review beyond the previously announced 1.25% increase in both Employer and Employee National Insurance rates, which will take effect from April 2022. The Chancellor has reaffirmed the commitment to increase corporation tax to 25% - but there are currently no planned reforms to business rates.
- 3.3.6 In November, the Living Wage Foundation announced an increase in the 'Real Living Wage' of 4.21% from £9.50 to £9.90 per hour. This rate is above the 'National Living Wage' set by Government, which was increased from £8.91 to £9.50 per hour from April 2022, as part of the Spending Review. Assuming that the current and future year staff pay awards rise in line with the MTFP assumptions (2% per annum), the lowest Council pay grade will continue to be above Real Living Wage rate.
- 3.3.7 The Bank of England voted by a 7 to 2 majority to keep its benchmark interest rate on hold at a record low of 0.1% during its November 2021 meeting. In addition, they voted by a 6 to 3 majority to maintain the existing programme of UK government bond purchases at a maximum of £895bn.

#### 3.4 Central Government Funding for Local Government

- 3.4.1 The Spending Review held on 27<sup>th</sup> October 2021 provided a three-year Spending Round for government departmental budgets, for the financial years 2022/2023 to 2024/2025. Details of the funding allocations for each local authority will not be announced until the Provisional Local Government Finance settlement is published in mid-December 2021 – Government at this time are unable to confirm the specific date.

- 3.4.2 Key messages from the Spending Review relating to local government finance include:

##### Core Spending Power

- 3.4.3 Core Spending Power will increase by £8.5bn over a 3-year period, of which £4.8bn is new grant funding and £3.7bn from assumed additional council tax receipts. The Government's assumption for the necessary level of council tax income required by Local Government is predicated on a total 3% increase in council tax levels for each year of the Spending Review period alongside an assumed growth in the tax base.

## Grant Funding

- 3.4.4 As noted in 3.4.3, Local Government in England will receive an additional £4.8bn in grant funding over the next 3 years, 2022/2023 to 2024/2025 (approximately £1.6bn in each year) to assist with funding cost pressures in all service areas. The increase in grant funding is front-loaded, with almost all the increase in grant in 2022/2023, and very little increase in the two later years. Included within the £4.8bn are a number of smaller national allocations; including £200m for the cross-government Supporting Families Programme, £37.8m for cyber security, and £34.5m to strengthen local delivery and transparency.
- 3.4.5 The methodology for distribution this additional grant funding is still being considered by the Government and will be confirmed as part of the Provisional Local Government Finance Settlement in mid-December.

## Council Tax

- 3.4.6 Indications from the Government before the Spending Review announcement were that councils would be encouraged to increase council tax to close any funding gaps, significantly relating to Social Care demand pressures. However, the Chancellor is now indicating caps on this rise with “core” council tax assumed by the Government to increase by 2% and the adult social care precept by a further 1%. The Provisional Local Government Finance Settlement will confirm the actual council tax increase thresholds for 2022/2023.

## Business Rates

- 3.4.7 The Spending Review announcement included changes to business rates but no decision yet on their long-term future. The planned increase in the business rates multiplier has been cancelled. The multiplier was due to be increased by 3.1%, in line with the September increase in the Consumer Price Index (CPI). Local authorities will receive “cap compensation” funding in the usual way to recognise this loss of income.
- 3.4.8 In recognition of the continued impact of the pandemic on certain sectors, a 50% discount for retail, hospitality, and leisure business rate payers will be available from 2022/2023, up to a maximum of £110,000 per business (not per property), again local authorities will be compensated for the value of this discount.
- 3.4.9 Other reforms, including more frequent revaluations from 2023, and investment reliefs to encourage green investment and premises improvements, meaning any increase in business rates payable is delayed for 12 months. These changes will affect uplift in valuations, which will be handled administratively by the Valuation Office Agency (VOA) – but will also affect local government because growth in business rates will take longer to be recognised.
- 3.4.10 Subsequent to the Spending Review, the new minister for the Department for Levelling Up, Housing and Communities (DLUHC), Michael Gove, announced the shelving of plans for local authorities to retain 75% of business rates. This announcement continues the uncertainty of local government funding reforms.

## Social Care Reform

- 3.4.11 As reported to Cabinet in October, the Government's Health and Social Care Reform plan, "Build Back Better" allocated £5.4bn of resource into local government. £3.6bn will be allocated through future local government finance settlements, and the remaining £1.7bn will be allocated separately by the Department of Health and Social Care "to improve the wider social care system".
- 3.4.12 The £3.6bn provided through the settlement will be over a period of 3 years to implement the cap on personal care costs and changes to the means test. It has been confirmed that the sector will receive £0.2bn in 2022/2023, £1.4bn in 2023/2024 and £2.0bn in 2024/2025.
- 3.4.13 The cost impact on authorities of these reforms is still being considered and methodology for distributing grant funding by the Government to fund these changes is still unknown. At this stage the planning assumption is that the cost of the reforms will be fully funded through increased grant and therefore neutral for financial planning purposes.

## Housing

- 3.4.14 A multi-year housing settlement has been announced, including £300m grant funding for mayoral combined authorities and local authorities to unlock brownfield sites and £1.5bn "to regenerate unused land". Additionally, £639m will be made available to reduce homelessness. At this stage the process for accessing this funding is unclear i.e., whether the funding is required to be bid for or whether some is to be allocated and if so what is the methodology for allocation.

## Schools

- 3.4.15 The Spending Review announced the restoration of schools' per-pupil funding to 2010 levels in real terms, schools will receive an additional £47bn by 2024/2025 for core schools' budget.

## Public Health

- 3.4.16 No changes to the funding system for Public Health were announced as part of the Spending Review, but it was noted that Public Health grant funding will be maintained in real terms, indicating an inflationary based increase for 2022/2023. The allocation will be set out in the Provisional Local Government Finance Settlement.

## Covid Pandemic

- 3.4.17 No further funding was announced for ongoing COVID-19 pressures within local government.

## Summary Funding Position over the Medium Term

- 3.4.18 Given the uncertainty on the allocation of national funding changes outlined above, the Medium-Term Financial planning assumptions on Government grant income are largely unchanged from the update provided to Cabinet in October 2021. The amendments which have been introduced are detailed in section 3.5.5 below.
- 3.4.19 The medium to long term position on Government funding continues to be uncertain following the recent move away from the planned 75% business rates retention and the introduction of a new ministerial team. In the absence of any further information, the continued assumption is that the Government will ensure at worst a broadly status quo position is maintained upon implementation of Fair Funding and any updated Business Rate Retention Scheme.

### 3.5 Medium Term Financial Plan

- 3.5.1 The MTFP position reported to Cabinet in October 2021 is shown below. This position highlighted a MTFP gap of £56.747m over the 4-year period 2022/2023 to 2025/26, with a forecast gap of £25.769m in 2022/2023.

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Government Grant Change	(1.967)	(1.500)	(1.299)	(1.308)	(6.074)
On-going Spending Pressures	34.017	25.554	14.430	12.272	86.273
<b>Total Gross Funding Gap</b>	<b>32.050</b>	<b>24.054</b>	<b>13.131</b>	<b>10.964</b>	<b>80.199</b>
Assumed Council Tax / Social Care Precept increase	(2.211)	(2.315)	(2.373)	(2.432)	(9.330)
Council Tax Base Impact	(2.907)	(2.907)	(0.595)	(0.608)	(7.016)
Council Tax Deficit Impact	(0.965)	0.000	(1.246)	0.000	(2.211)
Business Rates - Base and Inflationary impact	(2.487)	(1.226)	(1.934)	(1.535)	(7.182)
<b>Current MTFS Gap after agreed savings proposals, council tax and business rates</b>	<b>23.481</b>	<b>17.607</b>	<b>6.983</b>	<b>6.389</b>	<b>54.459</b>
Use of Reserves 2021/2022 (reversal)	2.288	0.000	0.000	0.000	2.288
<b>Current MTFS Gap after grant and local taxation changes</b>	<b>25.769</b>	<b>17.607</b>	<b>6.983</b>	<b>6.389</b>	<b>56.747</b>

- 3.5.2 A detailed analysis of the Council's spending pressures and commitments was presented to Cabinet in the October 2021 report. The changes since that report are outlined in 3.5.3 to 3.5.13. All spending pressures and commitments will continue to be reviewed and refined throughout the budget setting process:

#### Pay and Prices

- 3.5.3 The pay award for 2021/2022 is still to be agreed. In July 2021 a formal pay offer of 1.75% was made for 2021/2022, with Trades Unions balloting their members on the offer during September and October. The outcome of the ballot was to reject the pay offer and the Trades Unions are intending to conduct industrial action ballots with their members. The Local Government Employers have reiterated that the pay award offer is their final offer.
- 3.5.4 A 2% pay award continues to be factored into 2021/2022, 2022/2023 and budget planning for further years. 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.

- 3.5.5 The estimated cost impact from the 1.25% increase in Employer's National Insurance contribution rate from April 2022 is now factored in to the MTFP. The forecast increased cost for the Council, Together for Children and Sunderland Care and Support totals £1.293m. The Government confirmed that local authorities would be compensated for the financial impact of this policy. In clarification post the October Spending Review it has been confirmed that this is one of the additional cost pressures that local authorities will need to fund from the £4.8bn additional grant funding provided and therefore the overall impact on the Council is assumed to be neutral.
- 3.5.6 In recognition of short-term budget savings from staff turnover and also vacant posts across services areas, a staff turnover budget reduction of £1.000m has been introduced.
- 3.5.7 Provision is included within the budget planning for annual contract inflation in respect of the contract the Council has with Together for Children (TfC). The annual uplift in contract value is partly informed by the published September CPI figure. Following confirmation of this CPI rate at 3.1%, the updated total inflationary cost has been confirmed at £0.776m for the non-pay element of the contract and is reflected in the updated MTFP.

### **Spending Pressures**

#### **Adults Demand Pressures**

- 3.5.8 A provision of £4.900m for increased costs relating to Adult Social Care was included in the MTFP for 2022/2023, with the position to be kept under review. This forecast pressure has now reduced by £0.750m to £4.150m, primarily linked to the redesign of the telecare service with temporary funding allocated from covid funding for 2022/23.
- 3.5.9 As previously reported, Norfolk County Council recently had a court ruling against them in relation to their charging policy for a severely disabled client. The Court ruled that due process had not been followed in terms of implementing their current charging policy. Whilst Sunderland is confident that it has followed robust process and national guidelines any national changes to account for the Norfolk Council ruling may result in a reduction to client contribution income, resulting in the inclusion of £1.340m within the MTFP, including an element totalling £0.900m for backdated charges. The timing of any potential cost is no longer expected to impact in 2022/2023.

#### **Children Services Pressures**

- 3.5.10 A provision of £9.3m was included in the reported MTFP in recognition of forecast cost pressures anticipated by TfC, which were largely driven by external factors.
- 3.5.11 A further detailed review has been carried out by TfC and a reduction of £3m to a revised pressure of £6.3m is now forecast. The £3m reduction is supported by further transformational changes in service delivery, cost avoidance and income generation.



## Waste Materials Recovery Facility

- 3.5.12 As previously reported, a procurement exercise was underway for a new waste materials recovery contract to commence from 1 April 2022. Following the conclusion of the procurement, the estimated financial implications have reduced by £0.400m from £1.000m to £0.600m.

## Transport Levy

- 3.5.13 Nexus and the Joint Transport Committee are currently developing their budget proposals for 2022/2023. There remains considerable uncertainty with regard to patronage for public transport services, particularly Metro, which are necessitating Nexus and the Joint Transport Committee to consider a range of options around service delivery alongside seeking additional funding from the Government to support the position. Depending upon the outcome there may be additional cost pressures through the transport levy that the Council would need to include within its MTFP.

## 3.6 Medium Term Financial Plan – Updated Funding Gap

- 3.6.1 After taking in to account the updates provided in section 3.5, the revised MTFP funding shortfall over the 4-year period 2022/2023 to 2025/2026 totals £51.612m, with a forecast gap of £18.969m to be addressed in 2022/2023.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Government Grant Change	(3.260)	(1.500)	(1.299)	(1.308)	(7.367)
On-going Spending Pressures	28.670	28.389	13.095	12.277	82.431
<b>Total Gross Funding Gap</b>	<b>25.410</b>	<b>26.889</b>	<b>11.796</b>	<b>10.969</b>	<b>75.064</b>
Assumed Council Tax increase	(2.211)	(2.315)	(2.373)	(2.432)	(9.330)
Council Tax Base Impact	(2.907)	(2.907)	(0.595)	(0.608)	(7.016)
Council Tax Deficit Impact	(1.125)	0.160	(1.246)	0.000	(2.211)
Business Rates - Base and Inflationary impact	(2.487)	(1.226)	(1.934)	(1.535)	(7.182)
<b>Current MTFP Gap after council tax and business rates</b>	<b>16.681</b>	<b>20.602</b>	<b>5.648</b>	<b>6.394</b>	<b>49.324</b>
Use of Reserves 2021/2022 (reversal)	2.288	0.000	0.000	0.000	2.288
<b>Current MTFP Gap after grant, local taxation changes and reserves reversal</b>	<b>18.969</b>	<b>20.602</b>	<b>5.648</b>	<b>6.394</b>	<b>51.612</b>

- 3.6.2 It should be noted that at this stage in the budget setting process there remain significant uncertainties which include:

- Local Government Finance Settlement confirmation for 2022/2023, to confirm the actual individual Local Authority allocations. This is currently anticipated to be announced in early to mid-December;
- The ongoing impact of Covid-19 pandemic on Council costs and income and the wider economic uncertainty this creates;
- Uncertainty about the Government's funding for local transport, notably the Metro system which is facing significant pressures due to reduced passenger numbers. No additional transport levy increase is included over and above that included already in the MTFP, but may require additional funding if Government funding is not made available;

- Ongoing pressures in relation to both Adult and Children's Social Care;
- Confirmation of the delivery of existing savings plans assumptions;
- Going forward the impact of capital priorities both in terms of debt charges and any associated operational (revenue) costs;
- The Government's plans and timescales in relation to any Fair Funding Review and Business Rates reform impacting; and
- The general economic position and the direct impact on public sector finances.

### **3.7 Locally Raised Income**

#### **Council Tax**

- 3.7.1 Within the Spending Review the Chancellor indicated that the referendum threshold for core council tax will remain at 2% for 2022/2023. It was also indicated that local authorities can levy a 1% increase in the adult social care precept. The Government has assumed within its assessment of the Core Spending Power increase, that local authorities will implement these increases to provide the resources needed to fund services.
- 3.7.2 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. At this stage, the MTFP continues to allow for an annual increase of 2% in core council tax in-line with previous years increases.
- 3.7.3 The increase in Social Care precept is proposed to be brought in to the MTFP in line with the Government's assumption of a 1% increase.
- 3.7.4 The financial impact of Covid-19 on residents affecting council tax collection rates and the numbers of claimants eligible for the Local Council Tax Support Scheme is likely to continue in to 2022/2023. The situation will be monitored during the budget setting process following the cessation of the furlough scheme and the general progression of economic recovery.

#### **Business Rates**

- 3.7.5 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.
- 3.7.6 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.

- 3.7.7 As with council tax, the impact of Covid-19 on Business Rates is likely to continue into 2023/2023 in terms of collectability and business survival as the economy recovers. As set out in paragraph 3.4.8 the Government have confirmed some business rates discounts for specific sectors, for which local authorities will be fully compensated. The position will be kept under review and required adjustments reflected in the Budget Planning Framework as appropriate during the budget setting process.

### **3.8 Revenue Savings Proposals 2022/2023**

- 3.8.1 As set out in the Budget Planning Framework Report in October 2021, plans were in the development stage to be brought forward at a later stage in the budget planning process to address the budget gap. Budget savings proposals totalling £5.821m have now been developed and are detail below.

- 3.8.2 Car Parking Review (Deputy Leader) - £0.140m

Additional income will be generated from the creation of new on street and off street paid parking in areas near to the city centre including Sheepfolds and Deptford, as well as savings created by deleting a number of vacant posts.

- 3.8.3 Port Trading Improvement (Deputy Leader) - £0.223m

The Port's projected financial out-turn for the financial year 2022/2023 reflects a break-even position. The trading environment during this period will provide for a continuation of core commodity trades such as imported steel, wood pulp, exported limestone, scrap and crane parts. Recent third-party investments in bespoke materials handling facilities by Thomas Armstrong (construction materials) and Brineflow (liquid fertiliser) will provide continued growth opportunities during the period, as will that made by the Council in office/warehousing infrastructure, for Boskalis Subsea's regional headquarters and also in the enabling engineering works packages for the Port's Enterprise Zone sites, making them development ready.

- 3.8.4 Highways, Network and Street Lighting (Deputy Leader) - £0.888m

Proposed savings will be realised by efficiencies and operational management arrangements through the street lighting PFI and the ongoing transition to more energy efficient street lighting solutions (£0.274m). Additional new income will be generated from the ongoing digitisation of advertising assets through the new contract with Clear channel UK to install new bus shelter and free-standing unit adverts alongside a growing number of citywide large format digital screens (£0.480m). Minor changes to charging regimes for highways licences and permits will add additional revenue (£0.034m). Due to increased levels of work, it will also be possible to generate increased revenue within highways operations (£0.100m).

- 3.8.5 Engineers Additional Income (Deputy Leader) – £0.120m

Additional revenue will be generated by the Infrastructure and Commercial Design Teams through delivery of a large programme of Environment Agency funded flooding schemes over the next 5 years supplemented by the delivery of highways contracts for both the IAMP and the Ryhope Doxford Link Road and future large highway centred infrastructure schemes.

### 3.8.6 Corporate Support Review (Cabinet Secretary) - £2.000m

The Council's transformation programme is working towards a new "Thinking Operating Model" (TOM), with a structured approach to significantly improve the customer experience and address the financial and operational challenges in the medium term. This has applied a consistent set of tools to consider improvements, including 9 key design principles, a vision and case for change and a benefits roadmap.

A key element of this approach has been to look at the customer journeys that Corporate Support services deliver. This is a sub-set of 14 Corporate Services, which are primarily focused on internal customers, i.e. Council, TfC and SCAS. The remaining areas of Corporate Services will be reviewed as part of subsequent projects.

The developing picture for the new TOM in Corporate Support is to create a consistent set of customer journeys, with much improved information, advice and guidance (IAG) and a single front door. With this, and the appropriate use of digital tools, it will be possible to increase the level of self-serve, reduce duplication and/or demand failure/non-added value work and to organise staff resources in a different way. Throughout this review, a consistent set of HR principles are also being applied, covering aspects such as grading, spans of control and layers of management.

In overview, staff would sit in either the corporate customer management (CCM) team or in a knowledge centre (KC), a specialist service area such as Legal Services. A customer's journey will seamlessly flow across this arrangement, with the query or transaction being handled in the most appropriate manner at the most appropriate level, which is efficient and cost effective.

Whilst this work is not yet complete, a range of modelling assumptions have been applied to the in-scope teams and this is starting to be validated as the work is progressing. This has resulted in a significant level of staffing budget savings that are expected from working in this new way.

Whilst the work is likely to continue into the new financial year, current estimates are that savings in the region of £2.000m are possible for 2022/23. Whilst all endeavours will be taken to minimise redundancies, through the management of fixed term and vacant posts, as this will see a reduction of up to 60 full time equivalents (FTE) the Council will shortly be commencing the statutory notification of potential staff reductions.

The Council has previously created a transformation reserve (£3m) to support with any staff restructuring costs. The sufficiency of this reserve will be kept under review.

### 3.8.7 Siglion Distribution (Dynamic City) - £0.300m

A new business plan has been developed for Siglion Investments LLP which would see the distribution from Siglion LLP to the Council increase by £0.300m. The revised business plan is due to be considered at the next Siglion Board meeting before coming to the January Cabinet meeting.

### 3.8.8 Commercial Estate – City Development (Dynamic City) - £0.100m

An uplift of £0.100m from the commercial estate will be achieved through increased rental income from strategic acquisitions, taking into account the timing of acquisitions and any lease incentives negotiated with tenants.

### 3.8.9 Events (Vibrant City) - £0.300m

Reduction of £300k to the events budget. The programme of events is being reviewed with the aim of delivering a sustainable events programme consisting of a number of events that are aligned to key objectives within the City Plan including working towards Sunderland being a carbon neutral city, Sunderland being recognised as a destination of choice and delivering wider economic benefits for the city.

### 3.8.10 Leisure Joint Venture (Vibrant City) - £1.750m

In response to the Covid-19 pandemic additional funding was provided as part of the Council's 2021/22 budget to reflect the challenging operational circumstances of the leisure centres which are operated on behalf of the Council by Sports and Leisure Management Ltd. Following the easing of national restrictions during 2021, participation at the facilities has begun to recover and is currently anticipated to continue to do so over the remainder of 2021/22 and into 2022/23. As a consequence of this it is anticipated that the funding required to support the Leisure Joint Venture operations during 2022/23 can be reduced by £1.750m.

## 3.9 Overall Remaining Budget Gap

3.9.1 After taking into account the income from the 1% increase in adult social care precept across the period of the MTFP and the budget proposals set out at section 3.8, there remains a budget gap of £12.037m in 2022/2023, with a further £28.853m required to be identified over the period 2023/2024 to 2025/2026. Given the size of the gap, the uncertainty, both with regard to the Government funding and the pandemic, it is proposed that earmarked reserves are used to support the position which at this stage reduces the gap in 2022/2023 to £3.037m.

3.9.2 The Council's strong financial management and creation of reserves to support the budget over the medium term provides the opportunity to utilise funding to support the budget position whilst developing and delivering savings via the Efficiency Strategy. The Council has previously created a MTFP Smoothing reserve and Service Reduction reserve to address these forecast pressures. It is expected that these reserves will be around £27m at the start of next financial year and the MTFP assumes it will be used equally over 3 years, i.e. £9.000m each year, before being fully utilised at the end of 2024/25.

3.9.3 Following the publication of the Provisional Local Government Financial settlement, the level of resource to be provided by the Government for 2022/2023 and potentially beyond will be confirmed. Should this level of resource be beyond current planning assumptions the use of MTFP Smoothing reserves will be reduced to ensure progress is made more quickly in addressing the overall MTFP gap.

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
<b>Current MTFP Gap after grant, local taxation changes and reserves reverse</b>	<b>18.969</b>	<b>20.602</b>	<b>5.648</b>	<b>6.394</b>	<b>51.612</b>
Savings Proposals	(5.821)	0.000	0.000	0.000	(5.821)
Assumed Adult Social Care (ASC) Precept increase (1%)	(1.111)	(1.197)	(1.263)	(1.332)	(4.902)
<b>Current MTFP Gap after savings proposals and ASC Precept 1%</b>	<b>12.037</b>	<b>19.405</b>	<b>4.385</b>	<b>5.063</b>	<b>40.890</b>
Use of MTFP Smoothing Reserves	(9.000)	0.000	0.000	9.000	0.000
<b>Current MTFP Gap after use of MTFP Smoothing Reserves</b>	<b>3.037</b>	<b>19.405</b>	<b>4.385</b>	<b>14.063</b>	<b>40.890</b>

### 3.10 Approach to addressing the overall funding gap

3.10.1 The Council's Efficiency Strategy was agreed by Council in March 2021. 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. At this stage, given the scale of the financial challenge, it is now inevitable that significant reductions in staffing levels will be required. The Council will work with Trades Unions in terms of consulting staff in line with statutory guidelines;
- 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.

#### **4. Workforce Planning Implications**

- 4.1 Some of the 2022/2023 savings proposals outlined in section 3.8 have staffing implications. These 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.
- 4.2 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 and from within the overall corporate resource position.

#### **5. Budget Consultation/Communication Strategy 2022/2023**

- 5.1 Communication and consultation are important parts of medium-term financial planning. A range of activity informs this process and influences financial planning.
- 5.2 Consultation on the budget proposals will commence on 8<sup>th</sup> December 2021 and will run until 7<sup>th</sup> January 2022. Existing networks such as 'Let's Talk' and social media platforms will be utilised to communicate with both geographic communities and communities of interest.
- 5.3 In addition to residents, 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.
- 5.4 Feedback from the budget consultation will be prepared for members and Chief Officer Group for consideration whilst developing final budget proposals.
- 5.5 Scrutiny Coordinating Committee will continue to be consulted throughout the budget setting process.
- 5.6 Feedback from consultation with all consultees will be considered in framing the final budget proposals to be submitted to Cabinet in February 2022.

#### **6. Crime and Disorder**

- 6.1 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.

#### **7. Equalities Analysis**

- 7.1 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.

- 7.2 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.
- 7.3 Members must understand the equality implications of the proposals, which will be outlined in the equality analyses, as having regard to them will assist members in complying with the public sector equality duty when considering the final proposals.

## **8. Suggested Reasons for Decision**

- 8.1 Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2022/2023.
- 8.2 To enable constitutional requirements relating to the development of the Revenue Budget to be met.

## **9. Alternative Options to be considered and recommended to be rejected**

- 9.1 There are no alternative options recommended for approval.

## **10. Background Papers**

[Revenue Budget and Proposed Council Tax for 2021/2022 and Medium Term Financial Plan 2021/2022 to 2024/2025](#)  
(3<sup>rd</sup> March 2021 Council)

[Budget Planning Framework and MTFP 2022/2023 - 2025/2026](#)  
(12<sup>th</sup> October 2021 Cabinet)



## Statement of General Fund Balances

	<b>£000</b>
<b>Balances 31st March 2021</b>	<b>12.000</b>
<b>Use of / Addition to Balances 2021/2022</b>	
Contribution to Revenue Budget	0.000
<b>Estimated Balances 31<sup>st</sup> March 2022</b>	<b>12.000</b>

## Appendix 1b

### Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2021 £m	Forecast Movement in Year £m	Closing Balance 31.03.2022 £m
General Fund	General Fund of the Council	12.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	10.742	(2.380)	8.362
<b>Earmarked General Fund Reserves – Capital</b>				
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.041	(0.393)	8.648
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	8.192	(0.593)	7.599
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.	7.995	(0.391)	7.604
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	3.782	(3.096)	0.686
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	1.007	(0.700)	0.307
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	0.162	(0.162)	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.358	(0.533)	0.825

## Appendix 1b (continued)

<b>Earmarked General Fund Reserves – Revenue</b>				
NNDR Covid Retail, Hospitality and Leisure Relief Grant Reserve	Reserve established to manage the requirement to fund Collection Fund deficits in the proceeding financial year. Section 31 Retail, Hospitality and Leisure Relief Grant held to offset deficit in 2021/2022.	19.874	(19.874)	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.	17.861	(2.248)	15.613

Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.	12.145	0.000	12.145
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.	9.997	0.000	9.997
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	5.749	(2.291)	3.458
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.600	0.000	5.600
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.	4.281	(0.166)	4.115
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	4.179	(0.500)	3.679
Smart Cities	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless connectivity within the city.	4.000	0.000	4.000
Streetscene and Open Space	A reserve to enhance the city's recovery from the covid pandemic and ensure that the full benefit can be made of the regeneration activities across the city. This reserve will fund a range of streetscene and open space projects.	3.500	(0.750)	2.750
HCA Stadium Park	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.109	0.000	3.109
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures as the city emerges from the pandemic and MTFP challenges.	3.000	(1.500)	1.500

### Appendix 1b (continued)

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	3.000
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.	4.142	(1.100)	3.042
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	(0.167)	1.984
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.125	0.267	2.392
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	2.000	(0.600)	1.400
Children and Young People Recovery	The reserve was established for TfC to deliver a range of activities that will support covid-recovery activities.	1.700	(1.700)	0.000
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.533	0.000	1.533

Covid-19	A reserve established from the Government grant to fund the immediate costs and lost income associated with the Covid-19 pandemic.	1.512	(1.512)	0.000
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.	1.298	(0.250)	1.048
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	0.000	1.253
Triathlon	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.	1.200	0.000	1.200
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.197	(0.105)	1.092
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.	1.020	0.000	1.020
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	17.657	(6.486)	11.171
<b>Total General Fund Reserves</b>		<b>189.362</b>	<b>(47.230)</b>	<b>142.132</b>
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	9.401	(2.899)	6.502
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	4.085	(2.197)	1.888
<b>Total Usable Reserves</b>		<b>202.848</b>	<b>(52.326)</b>	<b>150.522</b>